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2 SEPTEMBER 1986

# China Report

ECONOMIC AFFAIRS

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## CHINA REPORT ECONOMIC AFFAIRS

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## NATIONAL POLICY AND ISSUES

### REVIEW OF COUNTRY'S ECONOMIC DEVELOPMENT

Beijing LIAOWANG [OUTLOOK] in Chinese No 52, 30 Dec 85, pp 11-16

[Seven-man Discussion on Economic Situation]

[Text] Deputy Secretary General Yuan Mu [5913 2606] of the Central Committee Finance and Economics Leading Group:

OUTLOOK is a periodical of current political events which is influential, authoritative and of a mass character. Today the editors of OUTLOOK have arranged for a seven-man review of 1985 and a look ahead into 1986 so as to do next year's work even better, which will no doubt be of interest.

The achievements of our country during the Sixth 5-Year Plan were inspiring, great, and liberating. In a nutshell, the most important thing is that despite the confusion and comprehensive reforms, we have begun to find the right way to build socialism with Chinese characteristics. The solid ice has been broken. The channel has been opened and every aspect of the plan is being progressively perfected.

As for the sphere of economics, our socialist construction has progressively changed direction from the previous traditional development strategy of unilaterally pursuing output value and yield toward a development strategy centered on increasing quality and beneficial results. We have begun down a new road at a rather reliable pace, with rather good results and even more material benefits for the people. As for our management system, we have smashed that former ossified or semiossified model of the planned economy.

We have progressively adjusted to the requirements of a planned socialist commodity economy on the basis of publicly owned production and are now establishing a new type of socialist economic system full of life and vitality. We have cast off the closed and semiclosed conditions of our foreign economic relations. We are progressing into the world within ever broader limits. On the basis of independent action and equal mutual benefits we are beginning to form an open economy which benefits from international exchange. Our social development is progressively transforming the previous kind of one-sided stress on economic development, particularly the stress on direct material development. We have started moving toward the development of increased attention to S&T education, cultivation of human talent and intellect, and toward an increased stress on all-round coordinated balance in economic and social development.

Amidst this historically significant transition the achievements we have made are unprecedented, profoundly meaningful and irreversible. As for this point, we must make a complete appraisal to accord it the proper evaluation. Estimation is not sufficient. It is not right. This is one aspect of the problem, the dominant aspect. Another side to it, in the transformation process between new and old policies, development strategies and management systems, or owing objectively to the immature conditions, or owing subjectively to insufficient ideological preparation, inadequate experience, and some degree of careless consideration is that unavoidably there will be so many problems and difficulties facing us that there will be faults in our work. Although this is a secondary matter, a problem of progress, it still requires high-level attention and must not be dismissed lightheartedly. --

The year 1986 will be the first year of the Seventh 5-Year Plan. Looking ahead at 1986, we should and can do it. We can continue to move forward correctly along the open path to building Chinese-style socialism this year, and make a good start on the crucially significant Seventh 5-Year Plan. In this connection:

--We must summarize our experience, uphold the reform and cause the reform and construction to develop in a way that will be mutually compatible and which will help each other forward. This is one type of basic guarantee for the consolidation and development of the current good economic conditions.

--We must work hard to consolidate and digest the results of the reform already obtained: supplementing, completing, improving, and increasing them so as to produce better conditions on this basis for the gradual, comprehensive reform. We must, at the same time, continue to work on the economy, greatly strengthening the necessary management and inspection. Micro- and macroeconomic management are both part of the reform. This is an important lesson we must always keep firmly in mind during the reform of economic system.

--We must uphold seeking truth from facts and the steady advance of our construction plans, work hard to maintain a basic equilibrium between society's aggregate demand and aggregate supply and maintain control of fixed assets, especially the scale of investment capital for basic construction. It is essential to constantly prevent climbing blindly and separating ourselves from actual requirements, and the possibility of excessive velocity. We must ensure the appropriate rate of growth, seeking sustained, concerted development for the whole economy on the premise of a stable economy and increased benefits while producing a good economic environment for reforms. This is a summary of many years of experience and a requirement for consolidating and developing the current excellent conditions.

--While strengthening the construction of our material civilization, we must greatly strengthen the construction of a socialist spiritual culture, upholding the use of the basic theories of Marxism to guide our reform and construction, to guide our economic and social development and to guide our every action. At the same time, in implementing it, we should develop Marxist theory itself.

Vice Chairman Gao Shangquan [7559 1424 0356], of the National Economic System Reform Committee:

Recently a survey was carried out in Zhejiang, Shanghai, Chongqing and other places and some views were exchanged with the factory heads and managers with whom the locally responsible comrades came into contact. The general impression I get from this is that the momentum of the reform is good, that the reform is promoting a healthy development of the whole national economy, that no macroeconomic instabilities have become uncontrollable, that some problems have emerged with the reform and that everywhere comrades are studying the essence of the National CPC Congress and bringing about a progressive unification. The most unanimous opinion is that we must go on upholding the reform, gradually developing the reform's good momentum, never talking the road of retrogression or using old methods to solve problems and moreover, while maintaining micromanagement, continue to explore the new mechanisms of macroeconomic control.

How shall we proceed with the reform next year? This is a question that fully concerns everybody. According to my understanding of the situation and in the opinion of the basic-level comrades, these few things ought to be considered:

--With respect to those correct reform measures which have been clearly implemented and had results, we must digest and consolidate them. The important thing is to carry out correctly the State Council's stipulations relating to the broadening of enterprise autonomy, maintain the authority and benefits already gained by enterprises and unceasingly invigorate the enterprises, especially large and middle-sized ones.

--We must conscientiously review the reform measures which are problematic and ineffective and accumulate less experience so as to weed out abuses, form a comprehensive plan, and perfect the reform. In 1985, in order to strengthen macro-economic control, we utilized tax revenues, credit, prices, wages, and other levers and got results. In 1986, we will progressively strengthen the comprehensive utilization of economic levers, explore ways to handle the macroeconomic indirect control mechanism, and correctly guide the direction of investment and conduct of enterprise.

--We must cautiously explore and develop the reform measures which are beneficial to microeconomic control, to the improvement of economic results of enterprises and the society, and to the balance between total supply and total demand. Pilot-project cities in particular must take new steps. For example, in developing production means markets, raising the foreign exchange earning capability of export enterprises, in giving full rein to control by mid-level city officials, and in the reform of the banking system we must actively experiment in order to promote reform.

Finally, one more point. I feel that in the wake of the progressive development and ever-increasing complexities of the reform, strengthening of leadership, perfecting the organization, and comprehensive coordination will all become more important. This will be an organizational guarantee of the smooth promotion of the reform and will require ample attention.

Vice Chairman Wu Xian, [0702 6272], of the State Council Rural Area Development Research Center

There is a Central Committee rural area working conference going on now. In recent years we have formed the habit of opening the rural area working conference at the end of each year and drafting the next year's Central Committee document while the farmers wait for it. Farmers in quite a few places say that the documents of the first few years have relaxed policies more and more each year. The 1985 document freed up policy, and after the reform of grains and other purchase and sale systems, channels of circulation were increased and economic management methods were invigorated. Now the farmers can truly handle production freely and manage the economy well.

How are we to view this year's rural conditions? Some people say that this year there will be an eventful spring, an eventful summer, and an eventful fall. The problems of progress do really exist, but general conditions are good. Now what everyone is discussing most is the problem of grain. This year grain output will probably drop by about 50 million jin, owing to serious natural disasters, reorganization of the structure of agriculture, and the reduction of area under cultivation. This kind of adjustment is certainly completely necessary. In a very few districts, during the readjustment of industrial organization we did not proceed from practice nor consider carefully and the step was a little too big. Owing to the imperfect rationalization of the price system and other reasons, peasant grain-planting activity was affected. Even so, this year's total grain output still exceeded the bumper harvest of 1982. Apart from grain and cotton, other cash crops increased in yield, and to a rather large extent at that. Total agricultural output value and rural area gross income both increased. While per capita income was not balanced, in general it too increased. At the time of the former unitary management of agriculture, if there had been such a great reduction in grain output the results would have been unimaginable. But now, since our nation's agriculture is still maintaining a thriving development momentum the reduction in grain output will not effect the whole situation. This clearly shows that our agricultural reforms and adjustments of rural area agricultural organization during the past few years have had obvious results.

Township and town enterprises have developed rather rapidly over the last few years. Output value has progressively increased. The surplus labor in many rural areas has had opportunities for employment, truly playing a major role on the vigorous promotion of rural economies. I recently took a trip to southern Jiangsu and saw a district where township and town enterprise was especially flourishing. There appeared to be a trend toward a dropoff of peasant's enthusiasm in farming. This was primarily because of the big income differential between peasants engaged in industry and agriculture. To solve this problem we must rely on taking the measure of supplementing agriculture with industry. With this policy we will safeguard peasant cultivation activity. Every place already has some new approaches to this. For example, the town of Mabei in Taicang County and Yuanhe in Changshu County in Jiangsu Province, and other places, are using township and town enterprise funds and technology to help sustain agriculture, to quicken agricultural mechanization, to improve production conditions, to increase economic benefits and to give agriculture



itself some development vitality. These new experiences in using industry to supplement agriculture are quite worthy of being summarized and popularized.

Agriculture is the economic foundation of the entire country. Currently this foundation is still rather fragile and needs continuous strengthening. As for the key points for rural area work in 1986, we must carry out all present policies in a down-to-earth way and gradually complete, perfect, and give full play to the full benefits of the policies. We must correctly study and solve the new problems emerging from the development of a planned commodity economy, promote agricultural reforms and continue construction in the direction of healthy development.

Nationalities Committee Member Zhao Yannian [6392 1693 1628]:

These past 2 years I have been to a few places. Principally, in 1984 I went to the northeast, the southeast and other economically flourishing places by the sea. In 1985, I focused my trips on "old, minority, and border" regions, going to Gansu, Qinghai, Guangxi and returning recently from the southwest. Our country is so big that development levels are very unbalanced, with great differences. Northern Shaanxi, Dingxi, and Xihaigu in the north, along with other regions of the loess plateau, have been markedly transformed in these last few years. As for the large impoverished areas of the south, by way of comparison, that transformation has been quite slow.

Guizhou, Yunnan, Guangxi, Sichuan, and other provincial areas, along with southwestern Zhejiang, western Hubei and northern Hunan compose a karst topographic area of about 520,000 square K7 primarily of calcareous sandstone. Because of the large quantities of exposed lime, starting with the famous Ming-era geographer Xu Xiake, people have called it the stone mountain region. On this piece of territory lives a population of about 80 million people, including a minority nationality population of 30 million, more or less. The scenery in these places is very beautiful, with many famous scenic spots for tourists. As everyone knows, the landscape and caves of Guilin, the apple trees and waterfalls of Guizhou, the stone forest of Yunnan, the yellow dragons and mountain strongholds of Sichuan, etc. are all part of the wonderful landscape of the karst topography. But, this large place is exactly the impoverished region where our country's current per capita industrial and agricultural output value is the lowest. The level of per capita income is the lowest, the component of nationalities is greatest, population is rather concentrated and communication is quite difficult. Now, the most real and pressing problem is that there are still some people whose problem of dressing warmly and eating their full has not been solved.

Creating this kind of current situation are historical reasons, topography, soil, climate, and other natural limitations, as well as improprieties in our work. This territory tells us that it is hard bone to be gnawed sooner or later, so we must pay attention to it now and work at improving it. In order to transform quickly the backwardness of this region and to speed up the process of its development, what we must consider first is mapping out a special, preferential development policy. "Old, minority, and border" mountain areas have their own laws of development. Natural conditions, social circumstances,

and nationality conditions all have special characteristics. These factors must all be fully considered when mapping out the policy. Formerly, under the influence of the "leftist" ideological line, they used a general district or a general mountain district policy to guide their work in this type of region. What they did was not making full use of the strong points but retaining the weak points of a policy. The result was a delay in the development of these areas, so that for a long time they have been unable to cast off their poverty and backwardness. This is the lesson.

The stone forest region has many disadvantages, but we cannot fail to observe its superiority and potential. Above and below the ground there are abundant natural resources to be exploited. For example, in the mountain basin and in the terraced fields, grains and other economic crops can be developed. The vast wasteland can be planted with grass and trees. Forestry and animal husbandry can be developed. The plant resources of the open country can be utilized to process and produce native products, etc. The rocky mountain region has an even clearer superiority in hydroelectricity, mineral products, construction materials, etc. If we only correctly recognize this type of region's characteristics (including natural, social, and ethnic characteristics), choose the main direction of attack, map out a development policy to encourage and support these activities, mobilize the enthusiasm of the masses, suit measures to local conditions for specific jobs, and give free play to its potential and superiority, then there can be great hope for the vigorous economic development of these districts.

Economics Professor Li Yining [0632 0110 1380] of Beijing University:

At present the most important thing is to grasp the educational situation. Having recently returned from Guilin and Changsha, I feel that in the current propaganda about economic conditions there are two problems which need to be cleared up.

The first is how to measure the standard of living. There are some people whose understanding of the situation is not clear, who look only at the rise in commodity prices and conclude that the standard of living has declined. I use an index: household property value. At a symposium in Guilin I asked a PLA man: since the smashing of the "gang of four," what changes in household property have taken place? The soldier who, is from a rural area, said that many families had built new houses, acquired television sets, electric fans, bicycles, etc. Someone said that households raising pigs, chickens, and ducks were numerous. A soldier from the city said that many households had bought television sets and also refrigerators. Whereupon I asked these men about how these families eat and what they wear. They said: all better than before. I asked them again: How did this new increase in the families' property come about? They all laughed and said that it was the increase in income. Indeed, the level of these families' clothing and diet had not fallen. So, the increase in household property value did not result from tightening the belt, but rather from the surplus after an increase in income. There is no harm in making an investigation to see how much families of workers, peasants, intellectuals, and cadres have added to their possessions.



The second is increasing propaganda about the policy of the external opening up. In Guilin and Changsha I gave lectures to the students in some high schools and spoke about how to treat the problem of international economic relations. I explained this principle: We must confront this reality about international trade. The exportation of primary products now is so that in the future we will not principally export primary products. We import foreign advanced technological equipment today so that in the future we will not import the same kinds of products. If we do not do it this way, we will never be able to narrow the gap between ourselves and the world's technological level, rather it could get even bigger. Because of this, we must correctly understand the necessity of opening up to the external economy. We cannot take normal international trade and say that it is a foreign economic invasion of our country, because current conditions are completely different from those of 30 years ago. Speaking again of the experience of every country in the world, some countries in the midst of rapid development started by exporting primary products and importing technology. Later, when they had become developed, they no longer solely exported primary products. Without exports, and thus without technological imports, the economy will be totally backward. Imports and exports must be continuously increased no matter what, but the imported technology is for digestion, assimilation, and bringing forth new ideas. Future import possibilities are other new technologies and new products, because the rate of advance of the world's technology is ceaselessly accelerating.

Naturally, in transferring power to a lower level these past 2 years some places have become disorderly, the massive importation of small cars, for example. The shortcomings in our work must also be recognized. From now on, we must strengthen the management of the importation of such consumer goods as small cars, tape recorders, television sets, etc. We cannot use large amounts of foreign exchange to import consumer goods. The unrestricted importation of consumer durables will not benefit the development of our own consumer durable goods industry.

Director Dong Fureng [5516 6534 4356] of the Chinese Academy of Social Sciences Economics Institute

Over these past few years the results of the reform and construction have been great. I feel that we should still strengthen our propaganda and explain the principles of reform and construction themselves. Because people have lived under the former system for so long, they will naturally have one or another sort of opinion during the reform process. This compels us to elaborate clearly upon the reasons for and principles of the reform.

As for the commodity price reform, what we have been implementing for a long time has been a policy of stabilizing commodity prices. Over the years few prices have moved. At the dawn of the adjustment, all price relations had to be transformed so that commodity prices could change, and could moreover go up. This is a necessary manifestation of the reform and the adjustment, but nowadays people have not adapted to this kind of situation, so it is easy for them to misunderstand. Naturally, the commodity price rise has an irrational cause, but if we understand it we can correct it completely. This principle

must be explained so that it is clearly understood, so that the masses can get it. We aim our attack at the contradictory mentality of those many people among the cadres and masses who hope for reform but do not want the reform to disturb the order of their former life. We must repeat the propaganda over and over and make people truly understand that since we must give free play to the function of market forces, from now on commodity prices will be able to move, and that this change is good for the reform. We must force people to slowly get used to life in a commodity economy, to adapt gradually to the new conditions of the reform process, and especially to adapt to the new transformations which the reform will bring from now on.

As for economic construction, one very important problem is that the strategic transformation of the country's ideology of economic development has not deeply penetrated popular feeling, nor deeply penetrated the minds of the cadres. Premier Zhao Ziyang, in a speech given at the Fourth Session of the Fifth National People's Congress raised 10 construction policy points, of which a very important one was that the reform had gone beyond the strategy of a blind search for high speed without considering good results. But, in these past few years there have appeared some situations running counter to this policy, for example: some districts have not taken good economic results as their premise but have single-mindedly pursued multiplication and comparison of speed and output value. Every locale hopes to lead the whole country. This kind of aspiration is good. But if they pursue only speed without noticing results, then that is wrong. In addition, using only gross output value of industry and agriculture as the index to measure economic development is quite inadequate. There is also communication and transportation, post and telecommunications, tertiary industries, and other aspects of development, none of which can be ignored. I have explained the situation clearly, yet among the ranks of our cadres there are still some comrades who have yet to establish truly a strategic transformation of their ideology of economic development. This is a big problem that we must solve and solve well, and thereby avoid any more errors and faults in our work from now on.

Standing Secretary Li Chongwei [2621 1504 1218] of the State Council Economics, Science and Technology and Social Development Research Center:

I would like to discuss two problems. One is that you cannot equate profit with economic benefit. Now there are many entrepreneurs, such as factory heads and managers, frequently equating profit and economic benefit, thinking that high economic benefits means big profits. This kind of erroneous thinking produces a situation of pursuing output value above and pursuing profits below. Our country's export trade has not gone up recently principally because the supply of goods is insufficient, because export products are not as profitable as goods for the domestic market, so enterprises are not too interested in producing export goods.

Actually, under the turnabout in price conditions, profit is certainly not equivalent to economic benefit. To use the level of profits as the only index of enterprise economic performance and moreover to couple it with staff material benefits, will of necessity encourage the tendency for enterprises to pursue profit single-mindedly. When enterprise profits are high, staff

income will naturally increase. For example, if a coal mine's output value is low, and its profits are so low that it is running at a loss, then there will be little retainment of profits. This kind of situation most certainly does not accord with the principle of distribution according to work. To solve this problem, aside from mapping out the appropriate policies, we must first correct this erroneous conception with knowledge.

The second problem is the proportional relation among commodity prices, labor productivity, and wages. People are very worried about the commodity price rise, because this relates to everyone's vital interests. Our country's wage system is relatively stable. If commodity prices fluctuated often, people would naturally be fidgety. Abroad, the way is for wages to rise with commodity prices. When the water rises the ship is high. At the present stage, our country still cannot take this step, but to make regular adjustment of wages and to calculate the factors in commodity price rises, these are well worth careful consideration.

Of course, wages cannot be increased arbitrarily. We must be prudent. In Japan and Germany, wages are set every year by a consultative conference. The wage increase is determined by two factors: the first is commodity prices, the second is labor productivity. If commodity prices rise, workers are given a certain allowance. Actual wages depend on labor productivity. The steep rise in wages along with increased labor productivity in recent years resulted in a weakening of international competitiveness. This is one of the reasons for this year's steep economic decline. Recently, there was increase labor productivity. Premier Lee Kuan Yew loudly appealed to the public and requested labor and capital of enterprises to raise labor productivity so as to compensate for past mistakes (in raising wages too quickly). These foreign lessons are well worth applying.

Long ago, if we did not pay enough attention to raising labor productivity, it was still excusable under those former labor-intensive conditions. Now there are some places, especially southern Jiangsu, that are feeling labor shortages. This spring I went to Wuxi and Jiangyin. The local small towns were all recruiting workers from northern Jiangsu. As a matter of fact, they had also found a way to increase labor productivity. When we draw up an economic policy, we should seek to encourage increased labor productivity. In the final analysis, only by raising labor productivity can everyone's material wealth and per capita income be increased. This principle is very obvious. These past 2 years, the extent of wage increases has been rather great, but the local productivity level has not risen correspondingly. This type of situation requires attention.

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## NATIONAL POLICY AND ISSUES

### YU GUANGYUAN INTERVIEWED ON REFORM PROBLEMS

Duesseldorf WIRTSCHAFTSWOCHE in German 4 Jul 86 pp 30-34

[Interview with Yu Guangyuan, vice president of the PRC Academy for Social Sciences and economic advisor to the government of the PRC by WIRTSCHAFTSWOCHÉ editors Baentsch and Ziesemer; date and place of interview not given]

[Text] Private businesses are no longer criticized as "the tail of capitalism" in socialist China, party secretaries no longer alone hold sway. Professor Yu Guangyuan, vice president of the Chinese Academy of Social Sciences and economic advisor to the government, calls for economic competition between various forms of property ownership.

WIRTSCHAFTSWOCHÉ [WW]: Professor Yu, the leadership of the People's Republic of China emphasizes that the current economic reform will alter nothing in the socialist character of your country.

Yu: The economic reform is intended not to weaken socialism, but actually to strengthen it. Unfortunately, our reform measures are often erroneously interpreted in other countries.

WW: But hasn't the concept of socialism become simply an empty phrase?

Yu: No, one simple mathematical formula can be applied to our view of socialism: socialism is the sum of public ownership of the means of production plus developed production of goods plus distribution in accordance with performance. We will not deviate from these fundamental principles. In the future as well, we will not orient ourselves primarily to profit, but rather to meeting the needs of the population. However, it is precisely for this reason that we need greater democracy in our economic life.

WW: Do you believe it may be possible in the future for the newly established private businesses also to be permitted to hire employees?

Yu: This already exists in principle today. Of course, it constitutes only a very small percentage of employment in China. A fundamental change cannot be expected to take place overnight.



WW: But would it not be desirable for the private sector to be even further expanded--especially in the interests of better meeting the needs of the population?

Yu: We have not yet had enough experience with private businesses. For the time being, the government is waiting to see how these businesses develop. Up until now, this has been more of a theoretical question, because private enterprises still play only a very minor role in the overall economy. In 1985, for example, there were only 4 million people in rural areas who were employed in private businesses.

WW: In terms of numbers you are correct--but when one takes a look at Shanghai, one has the impression that life there has changed very much because of the many small private restaurants.

Yu: Certainly, they play a positive role. But this is not yet a true private sector in the capitalist sense, most of these, after all, are family-run operations.

WW: Premier Zhao Ziyang has characterized the change in the price system as the key element in current economic reform. Most prices are still administratively determined, however.

Yu: Of course we would like to make more rapid progress in this matter. However, it involves basically not just one, but two problems: on the one hand, many prices in China are unreasonable, but on the other hand we cannot simply raise the price of certain goods overnight, because this would cause annoyance throughout the entire population.

WW: We doubt whether it is possible at all for a central authority to establish reasonable prices from above.

Yu: For this reason, we do not wish to centrally determine individual prices, but rather simply to set the general price policy. I have spoken with the responsible officials of the central office for prices in Hungary. Six or seven hundred people work in this office. And I feel quite badly for the director of this office because he is exposed to so much criticism. This task becomes truly overwhelming in a country as large as China. For this reason, the central authorities should only determine the prices of certain important commodities--and leave everything else to market forces.

WW: Putting aside for the moment the problem of prices, what are the major problems today of the economic reform, in your opinion?

Yu: The major problem is to further clarify the importance of the economic reform itself throughout the entire country. Nothing else is as important. Premier Zhao Ziyang was once asked by a reporter whether it was true that there were so many difficulties in implementing the economic reform. Zhao's answer was correct: if there were no obstacles, there would be no reform. In the final analysis, the critical question is whether or not we are able to increase the productivity of the enterprises.

WW: In rural areas, this has been achieved by making the individual farmer once again responsible for his own production, even though the land continues to remain public property in a formal sense. Can this model be transferred to urban businesses?

Yu: This is a very difficult problem. Many new forms of public and collective property--not only state-owned businesses, but also new types of cooperatives and new collaboration between state units--have emerged in China. Some enterprises have even distributed stock to their employees. In recent times, this has all developed freely--now, in the coming years, we must watch to see which groups can really demonstrate better economic success. You can certainly compare this with Darwin's insight on nature: the stronger will survive. Of course, in addition to this natural selection, there will also be a political one. But we will certainly not return to our actions of the 1950's, when we wanted to eradicate all non-socialist forms of property because we wished to bring about a purely socialist order, as it were. At that time, small private businesses were regarded as the tail of capitalism. That was a serious mistake.

WW: Where do you see models for economic reform in China?

Yu: I would not speak of models. We cannot simply transfer the experiences of other socialist states to our own situation. We made many mistakes in this regard after the founding of the PRC. In 1978 I was a member of a party delegation to Yugoslavia, and one year later I spent a considerable period of time in Hungary. I learned many things there that are very useful for China. And when one reads through the documents of the 27th Party Congress in the Soviet Union, it is clear that the Soviet economy is also undergoing change.

WW: As you see it, what can China learn from the West--putting aside for the moment the question of technology?

Yu: We can learn something from the planning mechanisms in the West, for example. We used to have an oversimplified view: in socialism there is state planning and in capitalism there is anarchy and chaos. In reality, however, this involves two differing notions of planning. After all, science and technology are carried out in the West very much in a planned manner, initially on the level of individual businesses, but then also through state controls. I believe that we can learn from this dualism--planning both on the level of individual businesses and on the state level.

WW: If you introduce more elements of the market economy, will you have to move to greater political pluralism in your country, in the long run?

Yu: Already today one hears the motto in China: "Let one hundred flowers blossom!" not only in the economy and in technology, but also in culture and society. We must have greater democracy in a political sense if we are to transfer more responsibility to the individual in the economic sense. I believe that the economic reform will quite automatically lead to significant political changes. However, the fundamental socialist character of our country must, of course, not be affected by this. For this reason, we will not do away with the leading role of the party.

WW: But isn't the leading role of the party already being given up in the enterprises? It used to be true that the party secretary made all important decisions, but now a director bears sole responsibility.

Yu: Today, the director bears the administrative and economic responsibility for the enterprise, but this does not eliminate the need for political leadership.

WW: How is this different from the way things used to be?

Yu: The party secretary is no longer allowed to become involved in concrete economic decisions. It used to be that the party secretary tried to do the work of the director--which resulted in his own work not getting done. However, I admit that it is not always easy to bring about a change in this behavior in actual practice. Nor do I believe it is appropriate for the party secretary to play the role of overseer of the director.

WW: But more supervision is probably necessary in the enterprises in view of the many reports regarding financial irregularities.

Yu: Yes, that is certainly true, but, after all, our workers are called upon to uncover infringements of the law. And for this we also have the competent authorities, such as the revenue office.

WW: Then why is a party secretary necessary at all any more?

Yu: The party secretary should see to it that party members are exemplary blue and white collar workers. He is also to mediate in controversies. But unfortunately there are a few party secretaries who really don't know what they should do all day long.

WW: Can the director of an enterprise fire an employee without obtaining the consent of the party secretary?

Yu: Yes, of course the director is allowed to do this. The party secretary has no right to interfere in such matters. The problem is simply this: we decided on this change as early as 1984, but many party secretaries are still not clear about it. And then these cadre usually have one of two reactions: either they do nothing at all any more--or they do too much and constantly interfere in the affairs of the director.

WW: It used to be said in China that the party secretaries are little Caesars in the villages and in the enterprises.

Yu: Fortunately, these times are over, even if this actually was the case at one time. Even the secretary general of the party is no longer a Caesar today. Hu Yaobang or Premier Zhao take part in the discussion of the leadership, but decisions are made by the collective.

Yu Guangyuan produces no fewer than a half dozen business cards when he is asked about his address and function in the PRC. Whether as director of the Institute for Marxism-Leninism and Ideas of Mao Tsetung, as member of the

board of the Academy of Social Sciences or as advisor to the Chinese government—the 71-year-old from Shanghai has always been interested in being involved in those areas in which politics, economics and science interface. "I'm like a bus," the former vice minister for science and technology describes his role: "I travel from station to station and pick up the people waiting there."

Since 1956 this student of the natural sciences and former librarian of Mao Tsetung has been involved primarily with economic matters, although he has not been entirely able to restrain his interdisciplinary interest in other sciences as well. At the 12th Party Congress of the Chinese communists, Yu Guangyuan helped to formulate the resolution which in 1982 gave the starting shot for a comprehensive economic reform of urban industry following upon the agricultural reform.

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## ECONOMIC DEVELOPMENT ZONES

### ARTICLE ON WENZHOU'S RURAL COMMODITY ECONOMY

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[Article by Wu Xiang [0702 6272]: "On the Developing Rural Commodity Economy in Wenzhou"]

[Text] Wenzhou and the nine counties and two prefectures within its jurisdiction have a total population of 6.2 million. Over the past few years, the commodity economy there has been developing rapidly. This has attracted many visitors and research teams to conduct investigations there. Some of these visitors say "very good" and others say "very bad." Some people praise it as the "Wenchou model," while others call it "capitalism." Why does Wenzhou have such a strong appeal? Why do the responses to it vary so greatly? What are the characteristics of Wenzhou's rural commodity economy? What enlightenment can it give on the development of our country's rural economy? I present below several preliminary views for discussion.

#### The Characteristics and Pattern of Wenzhou's Economy

As far as the development of our country's rural commodity economy is concerned, the rural commodity economy in the coastal areas is more advanced than that in the hinterland, and the rural commodity economy in southern Jiangsu and Zhu Jiang Delta is the most advanced. Compared with southern Jiangsu and the Zhu Jiang Delta, the Wenzhou area, which is situated in southern Zhejiang, shows a poor basis in collective economy and a backward traffic and communications system, and it lacks the favorable conditions which its neighboring big cities have. However, the speed and scale of the development of Wenzhou's rural commodity economy have not lagged behind those of other areas and have shown exceptional vigor. This is why the development of Wenzhou's rural commodity economy has attracted the attention of so many people.

Southern Jiangsu and the Zhu Jiang Delta are areas rich in fish and rice, while Wenzhou is a poor area which lacks grain, though it has a temperate climate, mountains and sea, and has some fish and rice. The per capita arable land (including terraced fields and nonirrigated farmland) in the Wenzhou area is only 0.46 mu, 50 percent less than that of southern Jiangsu and the Zhu Jiang Delta, where there are more people but less land. In order to support their families and make a living, the local peasants have to do

something else other than farming the land. History shows that Wenzhou residents have a tradition of going out to do business. Many of them are handicraftsmen. Before liberation, Wenzhou's industrial basis was very poor. Since liberation, because Wenzhou is situated at the frontline, investment in capital construction there has been limited, so that only a few small-scale, small and medium-sized enterprises have so far been built. The whole city's per capita fixed assets are only equivalent to 28 percent of the average per capita fixed assets of the whole of Zhejiang Province. Since there were few enterprises run by people's communes or production brigades in the area, the unemployment of educated youths has been a long-standing problem. During the sixth 5-Year Plan period, on the basis of implementation of the system of contracted responsibilities with payment linked to output, great changes took place in the urban and rural economies. Compared with the situation in 1980, the city's total industrial output value, total agricultural output value, revenue, and per capita income of the peasants increased by 130 percent, 156 percent, 122 percent, and 1.5 percent respectively during the Sixth 5-Year Plan period, while 60 percent of the labor power in the agricultural sector moved into the secondary industry and the tertiary industry. Although the development is unbalanced and there are still some areas which have not gotten rid of poverty, on the whole, the problem of feeding and clothing people has been solved. The per capita income of peasants in the 10 major bases specialized in producing and selling commodities and the surrounding flatlands has reached over 1,000 yuan and the people there have begun to move towards a well-off life.

Another characteristic of Wenzhou's rural commodity economy which differs from the situation in southern Jiangsu and the Zhu Jiang Delta, is that the household industry has been playing an important role in the development of Wenzhou's rural commodity economy. In 1985, there were 133,000 families and over 0.4 million people involved in household industry, for which output value reached 1.136 billion yuan, making household industry occupy a decisive position in the economy. The scale of production of household industry is small, the technology used by household industry is backward, most of the raw materials used by household industry are waste products and leftover bits and pieces of industrial material, and most of the products of household industry are not "wonderful" products but small products with low output value. However, you cannot look down upon them because of this. It is because of these characteristics that household industry has been able to: 1) offset the defects of the big city industry, satisfy the various needs of people's livelihood, and enable itself to stand firm amidst competition; 2) household industry can be easily learned, carried out, and popularized among the peasants, allowing it to continuously expand; 3) household industry needs little investment and the cost of household industry is low, so that it has a strong competitive capability and has been able to gain small profits but quick turnover in selling its products and thus secure a good market; 4) household industry has turned from a "small but complete" industry into a "small but specialized" industry and has specialized and serialized its products, and formed its own "first products" and "elite products" within a short time.

Another characteristic of the development of Wenzhou's commodity economy is that Wenzhou's specialized markets are very prosperous and vigorous. In the urban and rural areas of the whole city, there are nearly 400 markets, among which 113 markets are specialized markets. The most outstanding are the 10 big, well-known, nationwide specialized markets. The market liaison axis is the buying and selling specialized households involving 100,000 peasants who travel all over the country to big and medium-sized cities and remote and backward places to buy raw materials, sell products, sign contracts, and pass on information. These specialized households are not affiliated to state, collective, and individual commercial organizations. Their respective starting points and terminating points are the market. The household industry that developed in Wenzhou over the past few years is characterized by distant purchases and distant sales and belongs to small commodity production which is neither closely linked with agriculture nor closely linked with the local economy. Without a big contingent of people involved in purchasing and marketing to serve it, such household industry would have been unable to exist and develop. On the other hand, once such a powerful contingent of people involved in purchasing and marketing is formed, the dispersed small-scale household industry will be able to break through its own limitations and form a socialized distribution of work and cooperation through market regulation and organization so as to greatly increase the labor productivity and economic results and develop the advantages of the collective structure of specialized production. The 10 big specialized markets in Wenzhou each have one of two first products, and each product is divided into several working procedures which are carried out by independently managed households, so that these products have a great variety and a complete set of standards, form a complete set, and have a strong drawing and spreading power. The number of buttons sold at Qiaotou accounts for 50 percent of the buttons needed by the clothing industry of the whole country. From this we can see the secret behind why some of Wenzhou's products have sold so well.

The third characteristic of the development of Wenzhou's rural commodity economy is the development of small cities and towns which have become increasingly prosperous, along with the development of household industry and specialized markets. Over the past 3 years, the number of towns in the organization system has increased from 24 to 87, the peasants have become the main component of the city and town population. Apart from the peasants who have moved into and settled down in the cities and towns on the condition that they take care of their own grain ration, there is another type of peasant who goes to work in the cities and towns in the morning and comes back to the rural areas to rest in the evening and whose economic interests are directly and stably linked with the economic interests of the cities and towns. They have become an important part of the city and town population. out of their own interests and developmental needs, the peasants who go to work in the cities and towns have been actively raising funds to transform and old towns and build new towns. To date, the funds raised by these peasants total 0.45 billion yuan. With their own economic strength and management ability, the peasants who have moved into or worked in the towns have developed many small cities and towns into specialized markets with their own characteristics; enabled the simultaneous development of commerce, transport,

processing industry, post and telecommunications, building industry, service trades, and cultural, educational, and public health undertakings; and established various forms of economic structures, multichannel circulation networks, and multifunctional service systems. This type of service system has been gradually developed according to the market needs and has in turn greatly promoted the prosperity of the market.

To sum up, the basic characteristics of Wenzhou's economy is that under socialist conditions, with their own efforts the peasants have formed a multilevel, multichannel, and multiform new commodity economy pattern. The basis of this new commodity economy pattern is the household industry operated by peasants. The key link in this new commodity economy pattern is the specialized market whose backbone is the peasants engaged in the buying and selling of products. This new commodity economy pattern mainly depends on the small cities and towns built and developed with the funds raised by the peasants. The above three aspects depend on one another, promote one another, and combine with each other. They cooperate with one another and form a complete set, spontaneously form a network, do not act according to a unified plan, and do not act under any mandatory orders. The three aspects may seem a little disorganized, but, in fact, the law of value and the law of supply and demand have an impact on them. The new commodity economy pattern embodies the operational order of the commodity economy according to the law. It manifests the struggle, development, misery, and happiness of the peasants in the process of transforming a natural economy into a commodity economy. The people who have visited Wenzhou all feel that there is great potential among the peasants to develop the commodity economy.

#### The Continuation and Development of Historical Traditions

The formation of the peculiar pattern of Wenzhou's rural commodity economy is not accidental but has been "forced" and is "unbound."

A huge population on limited arable land is a common problem in our country's rural areas. In Wenzhou, this problem emerged as early as one or two hundred years ago, which forced peasants to go out of the rural areas to make a living and developed their ability for survival, so that most of the Wenzhou people have the ability to "do business" and are "craftsmen." The Wenzhou people have the traditional character of daring to break new paths, bearing hardships and withstanding hard work, and being firm and indomitable. However, under the influence of the "leftist" ideology for many years, the policy of "grasping grain as the key links" confined a large number of peasants to a small and arable land and condemned "businessmen" and "craftsmen" as people "not engaged in honest work" or even as people "taking the capitalist road." Frequent criticisms and struggles finally blocked the road so that the Wenzhou people who are good at "doing business" and "using crafts" had to work on less than half a mu of arable land each and suffered poverty without enough to feed themselves. The implementation of the system of contracted responsibilities with payment linked to output has brought decision making power to the peasants, "unbound" their hands and feet, and enabled them to bring their respective skills into play on a larger scope.



Although the peasants' enthusiasm for carrying out production and the productivity of agricultural labor have increased, the problem of a big amount of surplus labor has become more conspicuous. Although Wenzhou is different from southern Jiangsu and the Zhujiang Delta, does not have funds accumulated through a relatively strong collective economy, does not have the industrial radiating power of big cities, and cannot get a lot of foreign investment, the Wenzhou people have broken a new path in becoming rich which is suited to the characteristics of Wenzhou. The new path is to locally digest surplus labor power, develop the commodity economy, accumulate funds, train qualified personnel, and create the necessary conditions for the take-off of the rural economy by greatly developing the household industry.

It is clear that the rapid development of Wenzhou's household industry is inseparable from Wenzhou's historical traditions and is indeed the continuation and development of Wenzhou's historical traditions formed over the past several hundred years under the new socialist conditions. In Wenzhou, there are many skilled craftsmen and various sources of production, so the people of Wenzhou can develop a variety of small commodity products, rapidly expand and spread the household industry, and establish a relatively solid foundation for the household industry under the condition of having a huge population on a limited amount of arable land and lacking farm and sideline products and raw materials. Because many Wenzhou people frequently go out to do business, information can spread quickly. As a result, some small commodity products which sell well have emerged from a variety of small commodity products and have been popularized and developed into fist products, thus forming specialized markets which in turn promote the further development of the household industry. Every year more than 0.27 million Wenzhou people engaged in such trades as cotton fluffing, shoe repairing, tailoring, the building industry, the mining industry, and so on in various parts of the country. These Wenzhou people send money home, provide funds for the development of production, and bring back a lot of economic information to their hometown. The thousands of peasants engaged in buying and selling products are very good at doing business. These peasants are familiar with their own region and have their own ways of doing business, and their own "commercial networks" and "information networks." They have gradually formed a lateral, loose, and open network which has been operating actively and efficiently among the people. Social reproduction is a continuously moving and consecutive process. Production and circulation depend upon each other and regard each other as a precondition. The transition from a nature economy to a commodity economy in the rural areas of our country is only in the initial stage, so the closed circulation system formed over the past years and characterized by state management and multiple links still remains a huge obstacle to the development of the commodity economy. The vigorous specialized markets in Wenzhou have made major breakthroughs in this respect and manifested circulation's role in developing and promoting production. For instance, since becoming a button-collecting and distributing center, Qiaotou, a place which had never produced a single button before, has been a growing part of the household industry engaged in button production. In 1985, the total output value of button production in Qiaotou reached 20 million yuan.

Many comrades think that Wenzhou's experiences are suited to the great masses of less developed and backward regions where commodity production began to develop much later. These comrades call Wenzhou's experiences the "Wenzhou model." I basically agree with this view. In order to make it easier to compare Wenzhou's experiences with the experiences of southern Jiangsu and other regions, we can call Wenzhou's experiences the "Wenzhou model." I would like to add a reminder and a supplementary point: The emergence of any "model" has its own conditions and we cannot indiscriminately copy a "model" by putting it on a pedestal, the "model" will be soon widely popularized. The development of the commodity economy not only requires natural resources but also social resources, especially qualified personnel. Qualified and competent people are the key to organizing various essential factors of production. It is by relying on tens of thousands of qualified and competent people that Wenzhou has made its small commodity production spread among thousands of households and suit the changing needs of the market, has realized the specialization, socialization, and commercialization of products, and has opened up a highly efficient circulation channel. In Wenzhou, circulation has not only brought along production but also promoted the formation of specialized markets and the development and construction of small cities and towns. Along with the development and construction of small cities and towns and the perfection of small cities and towns' functions, the radiating power and area of specialized markets has grown continuously, which has enabled products to find a good market and further promoted the development of the household industry. Such a benign cycle has snowballed, thus turning small commodities into a successful big market. From this we can see that it is not so easy to learn from Wenzhou's experiences. This is because, although there are competent people everywhere, as they are often limited in number and spread over a large area, it is not possible for them to form a strong force everywhere. Second, there is a strong mood of despising people who do business in society, so that even if there are competent people in the society, it is still difficult for them to become popular, be supported by public opinion in society, and play their role. The comrades who are enthusiastic about the "Wenzhou model" should first make efforts to discover, support, and train qualified and competent personnel, change the general mood of society, and do more practical work.

#### A New Creation of Great Significance

Without markets, the commodity economy cannot develop. Along with the rapid development of Wenzhou's specialized markets, there is the information market, the market of the means of production, the funds market, the technology market, and the market for labor services. All these are unimaginable and unacceptable to those who have long lived in a self-sufficient economic order. Because the various rules and regulations which conform with the development of the commodity economy are still under discussion or in the making and are far from perfect and complete, some people are engaged in incorrect business practices and some maladies have unavoidably emerged in the initial period of development of the commodity economy. These maladies include ignoring quality, selling substandard products as good products, selling imitations, tax evasion, resorting to bribery in doing business, usury, and so on. It is reasonable for some comrades to express their anxiety and worries about the prospects for the development of Wenzhou's economy.

Among the questions raised, there is one which particularly attracts the attention of all sides. This question is whether the growing proportion of individual economy will affect the leading position of the state economy or not.

Over the past few years, great changes have taken place in Wenzhou's economic structure. In 1980, in the total industrial output value of Wenzhou City, the output value of Wenzhou's state-run industry accounted for 35.94 percent, while that of collectively-run industry accounted for 51 percent and that of household industry accounted for 12.4 percent. In 1985, the proportion of the output of state-run industry dropped to 18.43 percent, while that of collectively-run industry accounted for 54 percent and that of household industry rose to 30 percent. In the same period, in the total volume of retail sales of social commodities, the proportion of state commerce dropped from 36.8 percent to 27.15 percent and the proportion of supply and marketing cooperatives and cooperative shops dropped from 59.1 percent to 45.91 percent, while the proportion of individual-run commerce rose from 2.14 percent to 26.52 percent. In both industry and commerce, the proportion of individually-run economy approached or even exceeded that of the state-run economy. Under such circumstances, will the state economy still be able to play its leading role? Will the socialist country still be able to control the direction of its economic development?

I think we can approach the question in this way: The development of Wenzhou's economy is not isolated. We should consider it in light of the overall situation of our country. In a socialist country, there is no doubt that state economy is concerned, a bigger proportion of individual economy in some areas cannot affect the dominant position of the state economy. As far as the situation in Wenzhou is concerned, almost all the first products produced by the household industry are small products which cannot affect the dominant position of the state economy but can meet certain needs in people's daily life. The raw materials of the household industry are waste products and leftover bits and pieces abandoned by city industry. Most of the products of the household industry are sold to vast rural areas and remote mountainous areas, supplementing the city industry. Although the proportion of state industry has dropped, its absolute volume has shown a big increase. What is more important, the main trades and products, such as electric power and some other basic industries, main lines of communications, banks, post and telecommunications, and so on, which directly concern the national economy and the people's livelihood, are controlled by the state-run enterprises which still dominate and control the entire local economic life. Along with the gradual deepening of the reform and the gradual perfection of the new structure, the state will be able to use macroeconomic control methods such as revenue, credit, industrial and commercial administration, and so on to [word indistinct] develop correct guidance. Facts have proved that the development of the individual economy and the vitality shown by the individual economy are a challenge to the state economy and collective economy and are beneficial to improving the management methods and style of the state economy and collective economy and to further deepening the reform.

The present individual industry and commerce operated by the households in Wenzhou's rural areas are different from the individual economy in the rural areas in the first few years after liberation. Because the household individual industry and commerce are engaged in socialized production and are presupposed by the commodity economy, they have developed to a level higher than the self-sufficient individual economy. Because of the needs of the commodity production, most of these household industries and commerce have developed into various forms of cooperatives and combines whose scale has far exceeded that of household industry. There are now a total of 3,021 service combines in the whole city. These service combines have trucks, buses, cars, tractors, passenger ships, and cold storage and other service equipment, and have a unified plan for carrying out external contacts. Their production and operation activities are carried out by individual households which keep their own accounts. Another form is "affiliated operations," which is actually a regional or specialized cooperative economic organization. Almost all the small individual retailers in the rural areas "affiliate" themselves to a certain unit, otherwise they will not be able to get reference letters and carry out their operations. The units to which the small individual retailers in the rural areas are to be affiliated should be approved by the prefectural and township governments concerned. These units have "unified methods" to keep accounts, write checks, affix official seals, collect taxes, and so on, and the small individual retailers must pay a certain amount of service charges to these units. In operations, the small individual retailers have the right to carry out their productions according to their own methods and are not restricted by any limitations. The units concerned offer more services to the household industries which are affiliated to them, such as offering technological guidance, supplying information and circulating funds, and so on. The practice of making unified plans at a higher level and giving decisionmaking power to the lower level, having both unity and separation, and combining unity with separation, can be said to be a distributed production and cooperative service, which is actually the application and new development of the agricultural system of contracted responsibilities with payment linked to output in the rural industry. We can believe that so long as we adopt this form, continue to expand the services, and increase the variety of services, we will certainly be able to gradually link and combine the household industries and commerce spread in tens of thousands of households with the state economy and bring the household industries and commerce spread in tens of thousands of households into the orbit of socialist planned commodity economy. In this relatively loose and flexible combine, household economy is an independent cell in an organism and not a screw or a spare part fixed in a machine, so household economy is still full of vitality. The "affiliated operation" form has been created by the Wenzhou peasants in their practice and should be highly valued. We should help to gradually perfect it and enable it to play a bigger role in organizing peasants to enter the market and developing the planned commodity economy.

In the spring of this year, I went to Wenzhou for the second time. There I saw cadres at city level, county level, prefectural level, and township level investigating and studying the problems in the development of the commodity



economy and discussing measures to strengthen macroeconomic control. Wenzhou's smooth commodity economy development is closely linked with the fact that the leading cadres at various levels have respected the pioneering spirit of the masses and objective economic laws. In dealing with the new contradictions and new problems in the development of the commodity economy, we must stick to and develop the style of investigation and study. The CPC Central Committee has repeatedly and clearly pointed out that to lead is to serve. The commodity economy is unfamiliar to many people and no one can clearly say what kind of development is correct. In order to offer good services, the leading cadres should first of all go deep into the reality and learn from the masses. Only things originating from the masses can really be wholeheartedly supported by the masses and yield positive results among the masses.

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## ECONOMIC MANAGEMENT

### GUANGDONG GOVERNOR ON PROMOTING ECONOMIC PROSPERITY

Guangzhou KAIFENG [OPEN POLICY] in Chinese No 1, 8 Jan 86 pp 5-8

[Excerpts of article by Ye Xuanping, governor of Guangdong Province: "Adhere to the Open Door Policy and Reform and Make Prosperous Guangdong's Economy"]

#### [Excerpt] A. Continue In-Depth Reform

During the Seventh 5-Year Plan, the reform must be given top priority in all our work. This year and next year, the overall economic reform must genuinely revolve around the goal of enterprise stimulation and the balancing of the relationship between "macroeconomic control" and "microeconomic stimulation," the reform of planning, industry, agriculture, commerce, foreign trade, finance, commodity prices, personnel and other work so that each reform in each area supplements that in other areas and that good macroeconomic results can be achieved via microeconomic stimulation. Reforms already being implemented must be absorbed and supplemented according to the above demands, maximizing advantages, and minimizing shortcomings to gradually perfect them.

Government at all levels must be streamlined to grant more power to the enterprises, make more of an effort to build a system of indirect control, and enhance the role of price, credit, taxation, and interest rates as economic levers. A communications system which is rapid and complete should be gradually established and a scientific basis should be created for the adjusting and control of the economy. The localities and enterprises must understand the concept of the macroeconomy, that is, an ability to view the overall situation. We must act according to our capabilities and keep expenditures within the limits of income in the pace of production development and scope of construction and international economic dealings. Upsetting the balance between overall demand and supply is not permitted. We must continue to resolve problems already in existence relating to excessively rapid industrial growth rates, overly large investment scope in fixed assets, the excessive extension of credit, the overly rapid growth of consumer funds, the loss of control over foreign exchange expenditures, and other problems. The entire economy must not be too tightly restricted so that the reform has ample space in which to operate.

## B. Further Open Doors Domestically and Internationally

In his proposals concerning the Seventh 5-Year Plan made at the National Party Congress, Comrade Zhao Ziyang pointed out: "During the Seventh 5-Year Plan, we are faced with a situation of further opening up." Guangdong had taken an early step in implementing the open door policy and shouldered important tasks. We must now, according to the special policy and flexible measures continued to be granted us by the Central Committee, further expand and utilize international and domestic markets and augment economic strength by importation from abroad and linking up with the interior to make more contributions to the state.

We must further construct the coastal economic development zone. We must proceed from objective reality in dealing with the three SEZ's, and the Hainan Island, Guangzhou City, Zhenjiang City and the Pearl River delta economic development zones, and make full use of their advantageous conditions to confirm the direction and aims of our development. The various SEZ's should review the experiences and lessons of the past few years in order to make our economic models, structures, scope of construction and management work more suitable, practical, and complete, and make better use of the "four windows" and ("two-sided fan") function. Although Hainan Island, which has just entered upon the "road to opening up," lacks experience and has taken a fall, much good work has been done and economic construction projects of all kinds have been initiated. These experiences and lessons should also be reviewed and encouragement provided to promote further progress. The economic development zones of Guangzhou, Zhenjiang City and the Pearl River delta all have natural advantages, and as already developed regions, should be rapidly developed in the direction of an "export-oriented" economy according to the principle of simultaneous development of "trade, industry, and agriculture," and make even larger contributions.

We must further expand exports and increase foreign exchange earnings. A production system for export commodities must be created to enhance the competitive ability of our export commodities. We must gradually open up an even greater export market.

We must continue to energetically utilize foreign capital and import technology, with an emphasis on energy, transportation, the raw materials industry, the technological remodeling of enterprises already in existence, and projects to "create foreign exchange." The pace and scope of importation must be in accordance with the development of the province's share of the national economy and with the amount of foreign exchange we now possess and ability to repay debts.

While energetically promoting importation, we must make great efforts to develop internal linkups, without which there can be no "two-sided fan" effect. In the last few years, internal linkup work has been raised to the same high level as that of importation work. This was quite correct. This should be further implemented in our daily work to genuinely develop internal linking up as a part of it.

### C. Strengthen Priority Construction

Energy and transportation are the weakest link in the province's economy. We must concentrate human, financial and material resources to construct a group of energy, transportation, and communications projects in order to ensure that the needs of the Seventh 5-Year Plan can be met, and to provide for future reserves.

The main goal of energy construction is to increase the amount of electrical power. We must really stress projects of basic-level electrical power capacity, mainly coal fired plants and hydroelectric power plants with reservoirs capable of water level regulation annually. It must be noted that even with conscientious effort, it will take 2 to 3 years before there can be a fairly large increase in the supply of electrical power. It would not be a good idea to overestimate how much of the electrical power shortage can be alleviated by then. Therefore, we must hurry to make plans for electrical power construction in the Eighth 5-Year Plan, do a good job of preliminary work, and maintain a capacity of 1.5 million to 2 million kW.

As for construction in transportation, the current focus for local work is highways. Emphasis must be laid on building and improving the highway network that centers around Guangzhou. Guangzhou's export routes to the east and west must be kept open. Stress must be placed on the construction of high-speed roadways and trunk lines radiating out from the city. Work must be done relating to the construction and improvement of the Heng-Guang Sanmao and Guangzhou-Shenzhen railways; serious preliminary work must be begun on the Guangzhou-Meixian-Shantou line. At the same time, Guangdong's sea and river transportation should be stressed. The development of transportation in Guangdong should be guided by the comprehensive program for the development of transportation.

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## ECONOMIC MANAGEMENT

### ECONOMIC REFORM FOR YEAR 1987 DISCUSSED

Shanghai SHIJIE JINGJI DAOBAO in Chinese 5 May 86 p 15

[Article by Guo Shuqing [6753 2885 3237]: "How Should Next Year's Economic Reform Proceed?"]

[Text] What in the economy should be reformed and how to conduct the reform are questions everyone is concerned about and discussing lately. After this year's consolidation, assimilation and environmental improvement, bigger strides can definitely be taken next year. Our experiences with the Sixth 5-Year Plan have shown that taking small steps does not necessarily guarantee stability and appropriateness (and in places the steps were not small), and that it is the lack of coordination that creates problems. Adhering to coordination between enterprises, markets, and macroeconomic control as proposed by the CPC Central Committee for the Seventh 5-Year Plan is the correct direction for the reform from now on.

Taking bigger strides next year is necessary due to the objective situation. Only by resolutely taking planned, overall reform measures can we halt and ultimately eliminate the inflation of overall need, supplement and complete some early reform measures and gain good, overall results, thus ensuring the goal of the basic transformation of the economic system during the period of the Seventh 5-Year Plan. If we fail in this, we may lose the benefit of many advantageous conditions we now have domestically and internationally.

Taking bigger strides next year does not mean the immediate resolution of all problems. Nor does it mean lack of focus or an equal advance on all fronts. In considering specific programs, initial stress must be placed on reforms that are urgently needed for which conditions have been fully met--in other words, reform in areas of fundamental significance in economic relations that will not make overly high demands on our management experience and the level and quality of personnel. Only by clearing up old problems in these areas can the restrictive, poor budgetary connection between state and enterprise be severed, and indirect controls be used to replace direct control to realize a target model. The use of a few clever methods to get around these problems and find a shortcut is utopian in theory and in practice would lead to delays in the reform. The experiences of China and of other countries have demonstrated this point.

First of all is the reform of the price system for the means of production. Actually, this reform does not have direct bearing on living standards. The main reason for last year's fairly rapid increase in the commodity price index after the reform of consumer prices is not to be found in the reform itself, but in the inflation of investment and consumption. As long as we persist in controlling demand, keep a definite amount of funds in reserve, and maintain the amount retained by the enterprises to a reasonably low level, there will be no effect on the overall situation. In the price reform, we must thoroughly consider all sides of the matter and should implement unrestricted, and fluctuating prices and setting maximum price limits on most finished products while rationally readjusting the price of basic fuels and raw materials.

The irrational tax system must also be reformed in relation to prices. We must repeal the readjustment tax, expand the natural resources tax and transform most of the backward circulation taxes, such as the product and business taxes, into appreciation taxes. We must also improve the individual income tax and charge an investment tax on industries that need to have a brake put on their development.

In the implementation of a compensated land-utilization system, units that utilize urban construction sites must first of all pay tax to the state in order to further expand the land lease market and create a base for a real estate trading market under the control of the state. A compensated utilization system must also be gradually applied to forest lands, grasslands, and cultivated land.

While eliminating the readjustment tax, we must implement a fixed-asset utilization tax. Although it will be quite difficult to apply this tax completely fairly and rationally, and despite the fact that it may have certain negative results, its benefits will be greater than its drawbacks. As it will be difficult to precisely calculate current and original value, different tax rates will have to be computed for different industries to eliminate overall differences in revenue due to differences in fixed assets.

The reform of the financial system should revolve around the development and completion of the present banking system. While maintaining control over credit norms, we must accelerate the construction of a system of controls over the amount of currency, adjust the interest rate structure, further raise interest levels, and gradually grant autonomy to grassroots banks. Under the control of the Central Bank, we must encourage the lateral flow of funds and build and develop state-controlled investment companies and trust companies.

Other areas of coordination include: 1. Reorganizing materials departments, creating wholesale companies for means of production, organizing the production and management of means of production based on commercial principles; 2. readjusting the planning system and shrinking the scope of the directive system of planning in accordance with the progress of the price reform; 3. reforming the system of export tax drawback



subsidies and improving the licensing system; 4. reevaluating exchange rates. In addition, in the labor system an end must be put to the recruitment of a permanent work force, expanding instead the employment of contract labor, temporary workers, peasant and seasonal labor, etc. As regards internal enterprise organizational forms, while developing the factory director system of responsibility, the creation of management committees could be considered in making the transition to the new system.

What must be particularly stressed is the fact that next year's reform relies, to a fairly great extent, on this year's work in improving the environment and in the preparation of conditions. Of primary importance is persisting in the reduction of the overall scope of investment, and while improving the structure of investment credit, continuing to tighten up the money supply, preparing good designs for reform programs, doing investigative work, accelerating the pace of the enhancement of banking, auditing, and taxation sectors and personnel training, and so on. Only if we seriously review our experiences and resolutely implement these proposals for the Seventh 5-Year Plan, can great breakthroughs be made in 1987.

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## ECONOMIC MANAGEMENT

### ALLOCATIONS FOR SEVENTH 5-YEAR PLAN OUTLINED

Beijing JINGJI RIBAO in Chinese 29 May 86 p 2

[Article by Wang Fu [3769 1381]: "What Are the Focal Points of the State's Financial Distribution for the Seventh 5-Year Plan? Guarantee Priority Construction Projects; Expand Investment in Developing Intellectual Resources; Support Overall Economic Reform; Increase Capital Input in Agriculture"]

[Text] According to a relevant responsible person from the Ministry of Finance, state financial allocation and distribution during the Seventh 5-Year Plan will be made according to our capabilities and the greatest effort will be exerted to guarantee priorities, while heeding the principle of taking care of the average. Priorities of the financial distribution are:

- Based on the premise of controlling the overall scope of investment in fixed assets, rationally adjusting investment structure to guarantee that the funding needs of priority state construction projects will be met. The purpose of controlling the overall scope of investment in fixed assets is to achieve a balance between overall social need and supply and to prevent inflation caused by excessive allocations of the national income in order to ensure the sustained stability of the national economy and the smooth functioning of the overall economic reform. The purpose of readjusting the investment structure, reducing investment in some processing industries, and appropriately controlling the growth of investment in nonproduction-related construction is to guarantee that the funding needs of investment in state priority construction projects and ensure that economic development will continue in the 1990's and even longer. For this reason, the State had arranged 349.9 billion yuan to be used in capital construction during the period of the Seventh five-year plan. The allocation is equal to 31 percent of the total financial expenditure for the same period and the annual average increment is 6.9 percent.

- Expanding the development of intellectual resources. During the Seventh 5-Year Plan, 201.6 billion yuan will be allocated for cultural, educational, scientific, and health work, of which 116.6 billion yuan is to be spent on education for a 72-percent increase over the Sixth 5-Year Plan, and



an annual average increase of 8 percent. This will exceed the growth rate for ordinary financial revenue. In addition, local governments at all levels will use some of their reserve funds to develop education.

- Supporting the overall economic reform. An important task of the Seventh 5-Year Plan is to further a good economic and social environment for the overall economic reform. We must work hard to maintain a basic balance between overall social need and supply, ensure the smoother functioning of the reform and strive to build within 5 years or an even longer period of time, a lively, vigorous socialist economic system with Chinese characteristics. This extraordinarily complex and arduous task requires a definite amount of financial support. In order to completely support the overall economic reform, favorable treatment regarding taxation and profit must be granted that will reduce state revenue, such as reducing the readjustment tax on large and medium-sized state-run enterprises, increasing the depreciation rate on the fixed assets of state-run enterprises, and supporting a price system reform. On the other hand, expenditures must be increased for items such as certain subsidies.

- State financial input in agriculture will be greater than during the Sixth 5-Year Plan. In order to ensure the coordinated development of industry and agriculture, during the Seventh 5-Year Plan the state will appropriately increase investment in basic agricultural construction and expenditures for agricultural work and use 1 billion yuan annually from increases in township and town enterprise tax revenues to make industry supplement agriculture. State expenditures during the Seventh 5-Year Plan to aid rural production and agricultural work in general and provide financial support for development in economically backward rural regions will increase over the Sixth 5-Year Plan, which will play an important role in enhancing the ability of poorer regions to rely on their own efforts to develop production and improve living standards.

A responsible person from a relevant section of the Ministry of Finance pointed out that while guaranteeing that the above-mentioned funding needs will be met during the Seventh 5-Year Plan, expenditure needs in all other areas will also be given overall consideration. Increases in nonproduction-related and administrative expenditures must be appropriately controlled. However, it must be noted that the Seventh 5-Year Plan exactly coincides with a period of the overall deepening of the reform of the economic system, and the necessary funds must be prepared for the smooth functioning of that reform. We must stress increasing revenues and reducing expenditures, solidly guaranteeing the balance of income and expenses and implementing a fundamental turn for the better in the financial situation. This will be an arduous yet glorious task for the financial sector.

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## ECONOMIC MANAGEMENT

### JOURNAL DISCUSSES CONSUMER GUIDANCE

HK120644 Beijing JINGJI GUANLI in Chinese No 6, 5 Jun 86 pp 9-10

[Article by Li Landi [2621 5695 2769]: "Guiding the Consumers and Strengthening Macroeconomic Control Over Consumer Goods"--edited by Lin Daojun [2651 6670 0689]]

[Text] Judging from the situation of the present phase of our economic development, paying attention to the work of guiding the consumers is essential to the strengthening of macroeconomic control.

Some years ago, we went through a short period of inflated consumption due to our lack of experience and reasons like the "throes of reform." The increased pressure from society's total demand brought difficulties to economic development. Subsequently this was effectively brought under control by the state through the timely introduction of financial and monetary policies. The results were remarkable. However, we should take note of the fact that the situation where total demand exceeds total supply still has not been fundamentally changed and it is still necessary for us to further strengthen and improve macroeconomic control. At the same time, we must also attach sufficient importance to the delayed action of the exacerbated expansion of consumption funds as a result of "overactive economic activities" in the previous stage and must check the potential threat of this kind of delayed action by guiding the consumers. This is a necessary task in our efforts to consolidate, digest, supplement and improve the reform measures under new historical conditions. It is also an important aspect of economic management and an important component of macroeconomic control.

According to a forecast made by departments concerned on domestic market trends in 1986 and a survey of changes in the mode of consumption in Chinese families, the livelihood of the people will gradually change from basic subsistence to a moderately well-off level. This is chiefly reflected in the change in food consumption from the "staple food type" to the "non-staple food type," the change in clothing consumption from uniformity to diversification, and the change in the consumption of daily consumer goods from the "necessity type" to the "enjoyment type." These changes in the consumption structure show that China has entered a new historical period in its economic development. Changes in the consumption structure are inevitable when economic

development has reached a given level. They also provide the internal incentives for economic development. However, in addition to genuine changes in the consumption structure prompted by breakthroughs in our economic development in recent years, exist false consumption. This is chiefly manifested in the vying for a higher standard of consumption, in the tendency to only think of the present but not the future, only of "enjoyment" but not economic development in consumption, and even in the emergence of the phenomenon of liability consumption. The reasons for the existence of false consumption are: First, consumption long suppressed by the mode of basic subsistence in livelihood is activated by the rise in the standard of living. Second, the role of demonstration effect of consumption. The mode of consumption of some developed countries and the high level of consumption enjoyed by those people who have already become better-off have fueled people's desire to obtain better consumer goods. These two points have exacerbated the phenomenon of "premature consumption" resulting from the expansion of consumption funds. If not effectively checked through the guiding of consumers, this is bound to produce chaos in our economic life. Pressurized by changes in the consumption structure and in the market situation, the market life span of some consumer goods which actually suit the present level of economic development will be greatly shortened and the updating of the product mix will proceed too quickly. This will bring greater pressure to bear on investment in capital construction. Excessive investment in the fixed assets will reappear, which in turn will precipitate the expansion of consumption funds (because a sizeable amount of investment in the fixed assets will be converted into consumption funds) and ultimately lead to the further expansion of social needs. This will upset the normal, sustained, and steady growth of the economy.

These are two aspects to social consumption, namely consumption to meet production needs and consumption to meet livelihood needs. Thus, the guiding of consumers should also include these two aspects. Pride of place should be given to livelihood consumption. The purpose of guiding the consumers is to ensure steady economic growth through improving the consumption structure and regulating the relations between social needs and supplies. In addition to making a continued effort to control inflated needs, it is also necessary to improve supplies and further invigorate production. While striving to slow down the excessive rate of growth, we must maintain a suitable growth rate on the basis of striving for better returns. Thus, we should adopt the following measures in our efforts to guide the consumers: We must strengthen publicity. Whether in consumption to meet production needs or consumption to meet livelihood needs, we must advocate carrying forward the virtues of plain living, hard struggle, diligence and frugality of the Chinese people. We must explain in a realistic way that China is still a developing country where the economy is just beginning to be enlivened, that it is necessary for us to keep consumption and accumulation in suitable proportions, and that we can only ensure steady economic growth when we have sufficient social accumulation. In livelihood consumption, we must keep pace with our national conditions and the level of economic development and distance ourselves from the mode of consumption of "post industrial societies." We must resist the adverse influence of the demonstration effects of the mode of consumption in the developed countries and strive to eliminate the adverse effects of "premature consumption" on our economic development in the present stage.

2. We must strive to readjust the structure of investment. In consumption to meet production needs, we must make use of the economic levers to readjust and improve the structure of investment. In the next few years, we must cut down on the number of new projects. In particular, duplication in the construction of factories must be strictly controlled in order to reduce investment in fixed assets. Technological transformation, innovation and the tapping of existing potential should be encouraged. At present, we must concentrate on grasping the work of expanding reproduction by intensive means and guide the enterprises in taking the road of economic associations.

3. We must fully utilize the pricing lever in guiding the consumers. In a commodity economy, pricing has a direct bearing on changes in the consumption structure. This role is particularly notable during the transition from the mode of basic subsistence to the moderately well-off mode of life and at a time when consumption is beginning to grow. In respect of commodities with a relatively small demand elasticity, prices should be kept fairly stable. In respect of commodities with fairly great demand elasticity, we should adhere to the principle of demand-guided pricing by fixing a higher [word indistinct] demand is great and lowering the price when demand drops in order to better coordinate the relations between demand and supply.

4. We must guide the conversion of funds for livelihood consumption into funds for production consumption. On the matter of "precipitated" consumption funds in society, we must, in addition to producing more marketable commodities to speed up the returns of the money, also rely on various forms of saving to absorb idle funds for use in the development of production.

5. We must control the import of consumer goods. While striving to improve product quality, reduce production cost, and prolong the market life span of commodities, we must also control the import of consumer goods. This is of particular importance at present when we are faced with a shortage of foreign exchange. We must avoid letting "foreign goods" flood the domestic markets because this will result in too frequent readjustments of the product mix and adversely affect the improvement of the investment structure.

6. We must decide on a moderately well-off consumption structure that conforms with our national characteristics on the basis of resources available in our country. For example, the development of the means of transport, the people's diet and so on must have Chinese characteristics developed on the basis of domestically available natural resources. On no account must we blindly imitate the modes of the developed countries. Due to the energy shortage, the development of private cars and motor cycles should be curbed. Constrained by scarce per-capita arable land and pastureland, we must not seek an excessively large proportion of meat, egg, and milk products in our diet, and so on.

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## ECONOMIC MANAGEMENT

### PAPER REPORTS ON ELECTRICAL APPLIANCES INDUSTRY

HK081510 Beijing JINGJI GUANLI in Chinese No 6, 5 Jun 86 pp 11-13

[Article by Liu Liexun [0491 3525 8113] and He Yibu [0149 0001 1009] and edited by Pan Shucheng [3382 6615 3397]: "Strengthen Management Over Trade and Promote the Healthy Development of the Home Electrical Appliances Industry"]

[Text] The system of departmental management has been followed in China's industry all these years. Following the development of production and the advance of science and technology, the drawbacks of the system of departmental management and regional separation are becoming more and more obvious. As seen from the development of the home electrical appliances industry in recent years, the main drawbacks of the system of departmental management and regional separation are as follows: First, when a department or locality only concerns itself with its own needs and does not take the interest of the whole into account, unified planning and rational distribution will suffer, resulting in blind development. Second, there is duplication of imports, because each department and region wants its own way and negotiates with foreign businessmen separately. The failure to look around and make a comparison before deciding on what to import has inflicted economic losses on our country and benefitted foreign businessmen. Third, the failure to form an integrated information feedback system is not conducive to the formulation of prompt and precise macroeconomic decisions.

The CPC Central Committee pointed out in its proposals for the Seventh 5-Year Plan: "Departments of specialized economic management should switch from specific management over production and operations in enterprises directly under their administration to management of the entire trade. They should be responsible for formulating programs for the development of the entire trade, study major economic and technological policies concerning the trade, and organize information exchange, technological development, and personnel training." Thus, strengthening management of the entire trade and changing from departmental leadership to management of the entire trade and from serving one department to serving the entire trade constitute an important aspect of the current reform of the economic management structure. Management of the entire trade chiefly means strengthening macroeconomic control and providing guidance to open up and invigorate the microeconomy. We must concentrate on



formulating programs, principles, and policies for the entire trade, formulate policies in regard to technology, readjust the enterprise structure and product mix of the entire trade in accordance with the principles of coordination among specialized departments and economic soundness, formulate economic laws and regulations and supervise their implementation, issue production licenses, and coordinate the relations between various departments and regions in the development of lateral economic associations.

The home electrical appliances industry is a burgeoning industry which started to develop after the 3rd Plenary Session of the 11th CPC Central Committee. Following the rapid development of the national economy and the gradual improvement in the living standards of the urban and rural populace, home electrical appliances like refrigerators, washing machines, and electric fans gradually made their way into the homes of the urban residents and some rural households. They have become "goods in great demand." Thus, the development of the production of home electrical appliances promises a great future. With various regions and departments vying with each other to launch new projects, a scene of prosperity is seen in the home electrical appliances industry. In order to ensure the healthy development of the home electrical appliances industry, there is a pressing need for us to strengthen management of the entire trade and macroeconomic guidance while adopting flexible measures to invigorate the industry. In recent years, the Ministry of Light Industry, which is responsible for the management of the home electrical appliances industry, has, with the support and close cooperation of the State Planning Commission, State Economic Commission, Ministry of Foreign Economic Relations and Trade, and relevant departments in machinery, electronics, aviation, space, ammunition, shipping, and pharmaceutical industries, done something to strengthen the management of the home electrical appliances industry as a whole.

1. A good job has been done in improving market research and forecasting, carrying out overall planning, and selecting the best qualified.

Management of the entire trade can enable us to break down barriers between departments, regions, and ownership systems, carry out planning and layout for the entire trade from the angle of the entire national economy and the entire trade, and avoid acting blindly. Being able to make fairly accurate and scientific forecasts is an important basis for overall planning and rational distribution. In order to promptly understand and grasp changes in market demand, in 1980 and 1982, the Ministry of Light Industry organized two national market surveys and forecasts in regard to the home electrical appliances industry. In the fourth quarter of 1984, a similar market survey and forecast was organized on a still larger scale. Survey was conducted on the production and marketing of and consumption demands for refrigerators, washing machines, electric fans, air conditioners, and freezers in 25 provinces, cities, and autonomous regions. In addition, a typical family planning survey was conducted on 5 million urban and rural households to provide a basis for the leading departments at all levels to guide production and formulate plans for the development of refrigerators, washing machines, air conditioners, and other key home electrical appliances during the Seventh

5-Year Plan period. There were objectives in planning and a direction to follow in readjustment. Later on, two investigation teams were organized to carry out on-site investigations on the construction of factories and units manufacturing refrigerators and washing machines and on technology import, development programs, and so on. Through investigation, it was understood that blind development and duplication of imports were quite serious as far as refrigerators and washing machines were concerned. For example, market surveys and forecasts show that by 1990, the demand for refrigerators will be 7.5 million while imports by various localities will total 13.5 million, greatly exceeding social demand. Statistics from 56 refrigerator import projects for which contracts are being negotiated with foreign businessmen show that a total of 200 million dollars will be required to pay for the imports, which are mostly assembly lines. Upon the completion of these assembly lines, it is still necessary to spend huge amounts of foreign exchange to import parts because China is yet unable to supply them. Washing machines are another example. By 1990, market demand will be about 12 million, but as many as 20 million washing machines will be available according to development programs of various localities for expansion transformation and imports. Calculated roughly, it is quite sufficient to have 30 or so washing machine factories with an annual output of 400,000-500,000, which is a sound economic scale, in the whole country. In 1982, however, the number of such factories once shot up to over 300. After amalgamation in recent years, there were still 108 washing machine factories in our country in the first half of 1985, of which only seven had an annual output of over 200,000. As for the import of washing machines, deals have been concluded on 30 projects involving the import of 800,000 machines. In addition, 18 projects have been approved and, upon the signing of contracts, another 440,000 machines will be imported, a large number of which are duplications of imports. If blind development and the duplication of imports in the home electrical appliances industry are not halted in time, we will repeat the same mistake made in regard to the "old three major article" of bicycles, sewing machines, and wristwatches, and inflict unnecessary losses on the national economy.

In order to quickly put an end to the blind development and duplication of imports, the Ministry of Light Industry, in conjunction with the departments concerned, proposed on the basis of studies, plans and measures for controlling the imports of refrigerators and washing machines and for the checking up, readjustment, and consolidation of factories and centers manufacturing such machines. Upon approval by the State Council, the State Planning Commission and the State Economic Commission, these were implemented by the Ministry of Light Industry in conjunction with the departments concerned and the local authorities. After readjustment, the number of factories and centers manufacturing refrigerators dropped from 116 to 42 and the scale of imports was reduced from 13.5 million to 8.42 million. As regards washing machines, 11 projects to import production lines which had already been approved but for which contracts had not yet been signed were slashed. Initial decisions were made to support 22 chosen washing machine factories which possessed good production and technical conditions, turned out goods of high quality, and produced high economic returns. Orders were given to 34 washing machine factories which had poor production and technical conditions, which turned

out goods of high quality, and produced high economic returns. Orders were given to 34 washing machine factories which had poor production and technical conditions, which turned out products of poor quality and produced poor economic returns, and which were unable to increase production all these years to convert to other lines of production as quickly as possible. The remaining 52 washing machine factories were to be assessed by the Ministry of Light Industry in conjunction with departments concerned, in the light of agreed terms for the issuance of production permits upon the recommendation of the provinces, cities, autonomous regions, and departments concerned.

The readjustment of refrigerator and washing machine import projects and factories and centers manufacturing such products involved more than 20 provinces and cities, 8 industrial departments under the State Council, and departments in charge of overall economics and trade, financial, banking, taxation, and customs matters. Some of the projects were personally looked into by the leaders of provinces, cities, and State Council departments concerned. Under such circumstances, the difficulties involved in the readjustment were by no means small. However, because the State Council had promptly made the necessary decisions and the leading comrades of the State Planning Commission and the State Economic Commission had taken a personal interest in the work and urged each and everyone concerned to enhance their consciousness and unify understanding, all submitted to the interests of the whole. The relevant management departments were able to select the best qualified, handle matters impartially, carry out democratic consultation and treat everyone and every unit equally regardless of affiliation, just as one holds a bowl of water level with both hands. For this reason, they won the close cooperation and support of departments and localities concerned.

2. The work of organizing imports and providing technical counselling was strengthened and a unified approach was developed in external dealings.

After carrying out check-ups and consolidation on refrigerator and washing machine imports, the Ministry of Light Industry together with the Ministry of Foreign Economic Relations and Trade strengthened the work of organization and technical counselling in regard to approved import projects and developed a unified approach in our external dealings. Because there was concerted action within, there were no loopholes for foreign businessmen to exploit. Foreign businessmen were made to compete with one another so that we could compare and select the best for our imports. Efforts were made to avoid forcing up prices as a result of internal competition, which would benefit the outsiders.

At present, we are making a start by grasping the import of large injection machines. We are conducting negotiations and seeking quotes in a unified way for large injection machines to be imported by key washing machine factories. At the same time, we have adopted the method of combining foreign trade with the introduction of new technology. While importing the equipment, we will also import the technology of manufacturing the equipment in order to enhance our country's ability to manufacture large injection machines.

3. The work of controlling and supervising the product quality of the entire trade was strengthened.

The quality of light industrial products directly affects the vital interests of the vast numbers of consumers. With high-quality durable consumer goods like home electrical appliances in particular, poor quality will inflict great economic losses on the masses. If the safety of home electrical appliances is questionable, the personal safety of consumers will be at stake. Thus we cannot take the matter lightly. Striving to improve product quality is a long-term strategic task in the building of socialism. The home electrical appliances industry is a burgeoning technology-intensive industry. In our country, the technical and management levels for this trade are still very backward. Thus, we must put special emphasis on the need to improve product quality and uphold the principle of quality first. When we strengthen management of the entire trade, we must take the strengthening of the work of controlling and supervising the product quality of the entire trade as a regular and important aspect of our work.

First, we must single out typical accidents caused by quality problems in enterprises and boldly expose and solve contradictions without shielding anyone's faults. Enterprises should be helped to sum up experience and lessons and correct their building concepts. It should be further explained to the enterprises that in time of market shortage, it is all the more important that they should pay attention to quality and correctly handle the relationship between quantity and quality and between growth rate and benefits. At the same time, enterprises should be helped to conscientiously do a good job in digesting and assimilating imported technology and equipment and in carrying out innovation. They should strengthen quality control and improve measures for the testing of instruments and equipment and for personnel training in order to bring about a marked improvement in product quality. Through grasping typical cases and holding on-site meetings for the exchange of experience, we should turn the experience of a single factory into wealth for the entire trade.

Second, we must launch large-scale quality inspection in the entire trade and, in so doing, effectively promote the in-depth development of the work of digesting and assimilating imported projects, carrying out innovation, and exercise quality control and supervision in the entire trade.

Third, in order to ensure that that work of controlling and supervising the quality of home electrical appliances will be made a regular practice, the Ministry of Light Industry has taken further steps to strengthen the work of formulating and amending quality standards for the home electrical appliances industry and has formulated laws and regulations governing the safety standards of home electrical appliances. At the same time, it has been suggested that testing centers at the national level and testing sub-stations should be strengthened. The system of quarterly spot checks should be adhered to in order to promote the steady improvement of product quality in the entire home electrical appliances trade.



4. Efforts were made to promote lateral economic associations, develop coordination among specialized departments, and vigorously grasp the production of necessary parts.

For years, the development of our economy had been subject to the influence of the old pattern of development, with various departments and regions striving to form independent systems of their own. Enterprises, too, tried to be "big and complete" or "small but complete." This is economically very unsound. Thus, breaking down the barriers between departments, between regions, and between ownership systems, and developing lateral economic associations, is the only way to develop the home electrical appliances industry. This kind of association should start from the production of key parts for machines.

At present our country still depends on imports for parts like compressors, evaporators, and thermocontrollers for refrigerators and room air-conditioners for average and high-quality washing machines. This not only means we have to spend tens of million dollars in foreign exchange each year, but also puts our refrigerators and washing machine production in a passive state, subject to the supply situation on the international market. Thus, properly organizing the specialized production of key parts and striving to realize the goal of building entirely Chinese-made machines as early as possible is the direction and road we must follow in order to promote the healthy development of our home electrical appliances industry. To this end, the Ministry of Light Industry together with the departments concerned, in accordance with the principles of unified planning and selecting the best qualified, made arrangements regarding pre-selected production points for the Seventh 5-Year Plan period on the basis of investigations and after consulting the departments, provinces and cities concerned. This included 13 compressor factories (of which 5 are under the Ministry of Light Industry), 7 evaporator factories (of which 3 are under the Ministry of Light Industry), and 9 thermocontroller factories (of which 6 are under the Ministry of Light Industry).

The strengthening of management of the entire trade is a new aspect of the reform of the economic structure. Although the light industrial departments have done some work and made a good start in the past few years, we have but just made a beginning. As a next step, we will conscientiously sum up experience, actively create the necessary conditions to set up, step by step, a national association for the whole home electrical appliances trade and make it the adviser and assistant to relevant management departments, strive to explore ways and means for strengthening the management of the entire trade, and do a still better job in managing the entire home electrical appliances trade throughout the country in order to promote the healthy development of this industry.

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## ECONOMIC MANAGEMENT

### JINGJI GUANLI ON OVEREXPANSION OF INVESTMENT

HK120645 Beijing JINGJI GUANLI in Chinese No 6, 5 Jun 86 pp 24-27

[Article by Fei Zhongfu [6316 0112 5706], edited by Lin Daojun [2651 6670 0689]: "Overexpansion of Investment"]

[Text] Overexpansion of investment is a prominent problem in the economic life of our country and has been watched closely by the various relevant departments. People have discussed much about the causes of overexpansion of investment, its dangerous aspects, and the countermeasures against it. I shall give my views from the angle of the method of evaluating the economic benefits.

It is not sufficient to look at the problem of overexpansion of investment from the figures of the gross investment scale, the accumulation rate, and growth rate of the gross investment volume. These figures themselves cannot denote the serious character of the problem. It is necessary to look at the problem jointly from the two angles of the direction of investment (investment structure) and the economic benefits of investment. The direction of investment refers to whether the investments have been sufficient in cases in which investment is urgently needed and whether investments have been excessive in cases in which investments should not have been made. The economic benefits of investment refer principally to the economic benefits of all investment projects as a whole and not the partial economic benefits of a particular investment project.

If the gross investment volume is high but if the funds have all been invested in the direction in which they should have been and the aggregate economic benefits of all the projects are good, then the problem is not at all too serious. It is true that for a short period of time economic life is a little stringent, but this state of stringency will be quickly eased following the completion of the projects. The problem is a serious one when the gross investment volume is overly large and, at the same time, the investment direction is not appropriate and the aggregate economic benefits are also poor, as this may drag our economy to a breakdown. Conversely, if the investment direction is not appropriate and the aggregate economic benefits are also poor, then even though the gross investment volume has not surpassed the accumulation rate arranged beforehand, the problem is extremely serious.

Hence, simultaneously with solving the problem of the overexpansion of investment, we should solve well the problems of the direction of investment and the economic benefits of investment. In essence, the latter two problems are even more important. In addition, we should also follow the general direction of the reform of the economic structure of our country to further augment the vitality of the enterprises, develop a planned commodity economy, and the state's control over the enterprises should gradually evolve from being principally direct to being principally indirect. A "pure" planned economy naturally can control the overexpansion of investment, but surely we should not take the old road again. On the other hand, in solving the problem of the overexpansion in investment, we cannot depart from our country's economic reality. For example, because of historical reasons, we still have not set up a relatively developed commodity market, and the whole price structure has also been seriously twisted. Although we have already opened up a portion of the commodity market, the perfection of a commodity market must go through a definite procedure while putting the prices in order must be gradual and cannot be accomplished all at once. In the type of market economy of Western states, reliance on market mechanism alone can prevent the unlimited expansion of the investment scale, but it is not yet realistic for us to hope that we can right now depend on this type of market economy to control the overexpansion of investment. We must probe for measures that can also attend to other aspects.

Looking at our economic realities, all the three problems are in existence; namely, the investment scale being overly large, the investment direction being inappropriate, and the economic benefits being poor. At present, the problem of the overly large scale has already drawn much attention and people are also keenly aware of the presence of the problem of the investment direction being inappropriate. Phenomena such as redundant construction, duplicate introduction or importation, unmarketability of products, inability to rectify the problem of the "products being in abundant supply," and the problem of "products being in short supply" are all indicative of the serious character of the problem. But, seriously speaking, the problem of the economic benefits of investment is still far from having been really carefully noted. The great majority of large and medium-sized projects is still subjected to administrative policymaking and not to policymaking according to economic benefits; economic analysis reports of large and medium-sized projects after their completion are still seldom seen.

Problems in investment are naturally related to many of the concrete investment policies we have formulated, but we must also point out that aside from the investment policies not having been sufficiently adequate, there are still other forces in society that have propelled our investment activities to the opposite direction of our wishes. Some of these forces are ideological, some are historical, some are formed by customs, and some are formed by the policies we have formulated in other sides; that is, in formulating these policies, we have failed to note that they would produce passive effects on investment activities. For example, we advocate linking together the interests of the enterprises, the bonuses, salaries, and wages of the staff members and workers and the economic benefits of the enterprises (in reality

the realized profits and taxes of the enterprise), but under the extremely irrational conditions of our price structure, by so doing, the natural result will be concentration of the enterprises' investment and enthusiasm for operation in the direction of the small number of projects that charge high prices and yield large profits. We commend the departments and regions that have yielded high output value and large profits and eulogize them as having made large contributions. This is tantamount to point the investment direction for the various departments and regions to follow, but this direction frequently is not in line with the overall interests of society.

Taking a comprehensive view of the investment scale, the investment direction and the investment's economic benefits, the causes of the problem of our investment direction may in general be the following direct ones:

1. Many departments, regions, and enterprises have taken the "doubling of output value" as the objective to go after, disregarding the precondition of "enhancing economic benefits." Some have even taken "enhancing the economic results" as merely seeking profits and taxes. In reality, output value involves many duplicate computations and profits and taxes also consist of a portion of the national income. The objective which the economic activities of socialist states go after should be the national income computed in rational prices.
2. In the distribution of funds, we have still to a large extent retained the pattern of dividing them into portions for distribution. This in general is based on experiences and not on a scientific method of procedure. Hence, it provides no guarantee that by so doing the distribution is not rational. In ideology and understanding, we are still accustomed to taking that the funds cut and designated for whatever region or department belong to that region or department; no department or region is willing to spend the funds designated to it on another department or region. Hence, this portion of budget funds cut into parts cannot possibly flow in the direction of better overall economic benefits or in conformity with the more urgent needs of the national economy.
3. The current irrational price system, and, added to it, inappropriately taking the profits and taxes calculated on the existing prices as the economic benefits, have served as false red or green traffic lights to the extra-budget funds. Large amounts of funds rush to a minority of industries and trades and to a small number of products while nobody cares for projects that are extremely short in supply in the overall balance such as those in the raw materials industries and basic facilities. Because of social, political, and historical reasons, putting the prices in order takes a rather protracted period and it is not possible to open up all the prices swiftly. Hence, in the recent period, we cannot avoid the intervention of the direction of capital flow by irrational forces.
4. Economic levers are originally measures employed by the state to protect the overall economic interests and to direct economic activities. Unfortunately, up to now, a scientifically based method has not yet been evolved which can ensure the correct employment of the economic levers.

5. Over expansion of credits and loans. This indicates loopholes in our credit and loan policy. Up to now, we have not yet evolved a unified economic parameter that can effect liaison between the gross investment scale and restriction of credits and loans. When an enterprise applies for a loan, if only it can demonstrate that financially it can repay the loan, then in all likelihood the application will not be rejected. Under the conditions of the before-tax payment of interest and repayment of principal, any project, so long as the profit-and-tax rate of the funds is slightly higher than the bank loan interest rate, can obtain the loan whereas another project with truly good economic benefits does not necessarily enjoy any priority in obtaining loans. However, in satisfaction of the demand of the same market, it is possible that two or more than two enterprises can conceive of projects on the basis of the same demand and apply for loans. By so doing, under the conditions of the banks not being in good liaison with each other, many duplicate projects may appear.

6. The information or intelligence system not being sound enough and the information or intelligence channels not being in a smooth order.

7. In their minds, leaders at various levels of the various departments and regions have still entertained many selfish departmental ideas, lacking the concept of viewing the situation as a whole, always striving to seek more projects and more funds for their own departments or regions and seldom paying any regard to whether the whole situation will be benefitted. Ideas of making a "grand start" but "leaving little behind upon departure" are prevalent.

There may also be other reasons and causes. In solving the problem on the side of investment, formulating suitable policies and measures principally against these direct causes naturally is conceivable. But measures of a countering nature frequently may not be able to deal with all the factors mentioned above. Although measures like blocking, checking, and stopping may control the investment scale to a certain extent, they may not definitely and simultaneously solve the problems of inadequate investment direction and poor economic results. The vitality of the enterprises may also be curbed. This goes against the general guideline of the reform of the economic structure.

The problems found in arranging the funds within the budget, in guiding the extra-budget funds, in employing the economic levers, and in controlling credits and loans may all be traced to a common source; that is to say, up to now we have not yet set up an economic benefit concept in line with the unanimity and unity of the socialist system and our national conditions. We have failed to set up corresponding and unified methods and system for evaluating the economic benefits of the various kinds of economic activities.

Our strategic objectives and strategic guidelines for the economic development of our country all have made mention of enhancing the economic benefits, calling them the "center" and the "precondition" of all economic work. In reality, this is the general policy of our economic development and also the general policy of investment. Investment projects must have good economic



effects. Arranging the order of distribution of funds in accordance with the high or low economic benefits of the projects concerned and integrating all with an overall balance is the most appropriate investment direction. It is doubtless correct and essential that emphasis is laid on enhancing the economic benefits. Following this, we should, on a nation-wide basis, unify the economic benefit concept and set up and enforce methods and measures for evaluation of the economic benefits. Only by so doing can all economic activities have some guideline by which to abide. Unfortunately, we have been lax on this score, even to the extent of taking a laissez-faire policy, allowing people to interpret by themselves which projects produce good economic results and which projects produce poor economic results, and eventually letting them take their own course of action. The consequences of this laxness are that the capitalists' concept of economic benefits and method of appraisal are copied in whole and without any change: On the problem of investment, the western "method of appraisal" is followed in whole and computing the profit rate of funds according to the existing prices is taken as the target for the evaluation of the economic effects; with regard to the enterprises' operations, computation is also made at the existing prices, and the larger the profits and taxes realized, the bigger the contributions the enterprises are considered to have made.

When we talk about enhancing the economic benefits, we mean enhancing the economic benefits as a whole. The economic objective for which our whole society jointly looks is the maximization of the national income, and, concretely speaking, of the net output value of the enterprises. We should set up our own economic benefit concept and the corresponding method of evaluating the economic benefits. Inappropriately borrowing the use of the capitalists' economic benefit concept and method of evaluating economic benefits may be said to be one of the basic causes for the emergence of the various problems in our investments.

Following the method recommended by the Industrial Development Organization of the United Nations and the World Bank, the State Council's Research Center on Economic, Technological, and Social Development (formerly the Technological and Economic Research Center), drafted early in 1985 a report for discussions on "evaluation of the national economy--method of economic evaluation of the feasibility of industrial construction projects." This evaluation method of the economic benefits of projects (briefly known as "economic evaluation method") basically is unanimous with the socialist concept of economic benefits.

As far as the investment projects are concerned, this "economic evaluation method" has the maximization of the national income as the economic objective; the general evaluation target is the funds generation rate (amount of increase of the national income brought about by each yuan of capital fund); shadow prices are used in lieu of the existing prices to compute the outlay charges and the benefits attained, and as for the majority of import and export cargoes, the offshore and onshore prices are taken as the basis for calculating the shadow prices; what is more important is that we must compute at the same time the indirect costs and the benefits and that in cases wherein



an enterprise has edged out another enterprise in raw materials and market projects, reduction of the net output value of the other enterprise should be first made from the net output value of the project before the funds generation rate is calculated; projects turning out products in short supply, because of enabling the enterprises concerned to earn and to operate in full, will help in enhancing the funds generation rate. The government will specify a unified standard earning rate (end fund generation rate); projects earning lower than this standard rate will not be entertained and will be refused loans by the banks; projects with a high funds generating rate will have priority in obtaining loans.

If we can use the results from this "economic evaluation method" as the principal basis for investment policymaking and if we use the same kind of concept and method to evaluate the economic benefits of the economic activities as well as to serve as the major basis in policy making, then the many problems on the investment front can be basically solved. Briefly, we may elucidate as follows:

1. Arrangements for distribution of funds within the budget will have a scientific basis. Departments can report to the Planning Commission the large and medium-sized projects the products of which have definite markets, which have a definite source of supply of raw materials for their products, which definitely can take command in technology and whose fund generation rate surpasses the standard earning rate; the Planning Commission will then, on the basis of the higher or lower fund generation rates and making an overall balance, give the priority order for the distribution of the 5-year plan funds.
2. Extra budget funds naturally will flow in the direction of good economic benefits as a whole. Projects supported by the availability of markets, raw materials, technology, and fund generation rates in excess of the standard earning rate can then be established.
3. Employment of the economic levers will have a scientific basis; bank credits and loans will also have relatively subjective standards.
4. If only the enterprises can use the results of the appraisal by means of this method, they will have no worry about suffering from administrative intervention. Only by so doing can the enterprises truly have decisionmaking power and vitality.
5. Subjects determined by subjective wishes will be greatly restricted.
6. The government may readjust the standard earning rate on the basis of the statistical conditions of the general investment scale. If the general investment scale tends to be overly large, the standard earning rate may be raised, thus making projects with relatively poor economic benefits unable to exist.

Many socialist states have displayed the phenomenon of the overexpansion of investment. This is principally due to the influence of the pattern of the Soviet economic structure. For a long time, the gross output value of industry and agriculture has been taken as the economic objective commodity production has been neglected, prices have been seriously twisted, and, on top of all this, there were the results due to using all along the capitalist "financial evaluation method." If we can swiftly establish the socialist economic benefit concept, rapidly and, in an all-round manner, promote the "economic evaluation method," then the problem of the overexpansion of investment and the many other problems can readily be solved. Naturally, this is not meant to infer that upon promotion of the "economic evaluation method" all the problems can ipso facto be solved. We have yet much work to do. For example, we must further develop the planned commodity market, improve and perfect the information and intelligence system, strengthen the comprehensive balance, augment financial management [word indistinct], and so on. We must also further strengthen ideological and political work. Certain necessary administrative intervention must also be contained.

The so-called "investment starvation malady" is not inherent in the socialist system. If we can truly grasp the special features of socialism and put the socialist strong points into full play, it can be entirely eradicated.

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CSO: 4006/1271

## ECONOMIC MANAGEMENT

### NATIONAL FORUM OF CIVIL ENTERPRISES OPENS

OW140625 Beijing XINHUA Domestic Service in Chinese 1459 GMT 13 Aug 86

[Article by reporter Yang Like]

[Excerpts] Qingdao, 13 Aug (XINHUA)—A national forum of civil enterprises opened in Jiaonan County, Shandong, today. During the meeting, sponsored by the Propaganda Department of the CPC Central Committee, the State Economic Commission, and the All-China Federation of Trade Unions, the 100 or so representatives from 20 provinces, autonomous regions, and municipalities directly under the central government; 19 large and medium-size enterprises; ministries and commissions under the State Council, as well as authorities concerned will exchange experiences in building civil enterprises and explore ways to promote the on-going reforms while building civil enterprises.

Addressing the opening session today, Wang Daming, deputy head of the Propaganda Department of the CPC Central Committee, pointed out that, when economic construction is on the right track and material life has improved, people desire better production and living conditions, including a good living environment, good social conduct, and good services. These material and cultural needs of the people are also objective requirements for commodity economic development, he said.

Wang Daming said: Clear-cut guidelines are essential for promoting civility in the nation's more than 1 million enterprises. First, the promotional activities must be carried out in a way to facilitate economic construction and overall reform and the policy of opening to the outside world and enlivening the domestic economy. Second, they should keep up with the development of socialist commodity economy and help our enterprises become genuine and relatively independent commodity producers and marketeers. Third, we should heighten the workers' ideological and political consciousness, and help them become ethical, disciplined people who have lofty ideals and who are professionally more competent.

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## ECONOMIC MANAGEMENT

### DEPARTMENT STORE SERVES AS MODEL OF INITIATIVE SYSTEM

OW110624 Beijing XINHUA in English 0548 GMT 11 Aug 86

[Text] Beijing, 11 Aug (XINHUA)--The Tianqiao Department Store Co. Ltd., the first in Beijing allowed to issue stocks, is said to be showing how to reform China's state-owned commerce. While receiving XINHUA reporters, officials at the State Commission for Restructuring the Economy said that the way the company is being managed helps promote the development of the socialist commodity economy.

The company, which was formed by merging two department stores and a wholesale store, began selling stocks early last year. The operational funds and the fixed assets for the three automatically became the state investment, which now accounts for 50.97 percent of the shares, said a company spokesman. The other share owners are banks, which control 25.89 percent of the total; other enterprises, 19.68 percent; and individual citizens, 3.46 percent. A board of directors, which supervises the overall work of the company, independently makes decisions on the company's management, finance and employment.

This breaks away from the old system under which the management of a state-owned store could almost do nothing without permission from higher authorities, the spokesman said.

"Share holders are certainly concerned with the management and business operations of the company, now responsible for its own losses and profits," the spokesman said. Of the company's after-tax profits, he said, 40 percent is distributed to share owners as dividends, another 40 percent as development fund. The board of directors retains 12 percent of the profits for its own disposal and the rest, 8 percent, is used to cover labor insurance for the staff.

The initiative-based system is boosting business, the company's sales volume reaching 32.13 million yuan between July and December last year, up 35.4 percent over the same period a year ago.

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CSO: 4020/417

## FINANCE AND BANKING

### CRITICAL FUND SHORTAGE PLAGUES HAINAN ISLAND

Hong Kong MING PAO in Chinese 9 May 86 p 5

[Article: "Hainan Island Owes 700 Million Yuan in Bank Loans"]

[Text] Excessive imports and the speculative trading of such supplies as automobiles have created for Hainan Island an ideological and an economic millstone and a worrisome appendage in that the import of supplies in a haphazard manner and the duplication of factory construction have created enterprises that cannot be kept in operation.

That was pointed out by Meng Qingping [1322 1987 1627] of the Hainan Administrative District in a special interview with a reporter recently in Haikou at which he frankly discussed the circumstances leading to the creation of such a situation.

One of the millstones, Meng Qingping said, was of an ideological nature. The exposure of the criminal case involving the trading of automobiles brought to light over 1,000 other large and small criminal cases, of which over 570 involving over 1,500 miscreants were investigated and prosecuted last year. Over 2,000 cadres were assigned to investigate and deal with the cases. That was why it had not been possible to assign many cadres, including some in key positions, to projects of economic construction. Although the central government has repeatedly stressed the need to investigate and settle the majority of the large and important cases. It will take time to rid ourselves of the ideological millstone and to clarify our thinking.

The other millstone is of an economic nature. As a result of the speculative trading in automobiles, Hainan is behind in the repayment of bank loans amounting to 410 million yuan. Although a subsidy of 150 million yuan was paid by the central government, Hainan still owns 260 million yuan in bank loans. At the end of last year, the total value of such imports as automobiles and electrical appliances which had piled up came to 970 million yuan, of which 440 million was in loans extended by banks. The two amounts of 440 million yuan and 410 million yuan add up to 850 million yuan in loans extended by banks. Subtracting the subsidy of 150 million paid by the central government, Hainan is still 700 million yuan in arrears. For that reason, the turnover of funds has been made extremely difficult. Consequently, the State Council has had to allocate to Hainan an additional loan of 200 million yuan to be used as circulating funds. Hainan Island is truly living from day to day with a heavy burden on its back.



As regards the worrisome appendage, Meng Qingping said that the import of commodities in a haphazard manner and the duplication in the construction of factories have rendered it impossible for many enterprises to continue operations. As a result of the shortage of foreign exchange for purchasing component parts, for instance, the 11 production lines for the manufacture of color television sets have been idled.

Meng Qingping pointed out, however, that following the investigation trips to Hainan made by such responsible leaders in the central government as Hu Yaobang and Zhao Ziyang, the spiritual outlook of the people of Hainan has undergone a pronounced change for the better and the sense of responsibility and dedication by cadres has been reinforced. The value of industrial production for the first quarter of this year has exceeded that for the same period last year by 9 percent. The agricultural production situation has also improved. The acreage for the planting of tropical cash crops has shown a sharp increase. By the end of April, for instance, the acreage for rubber plantation had increased to 4,653,100 mu.

The new director who succeeded Lei Yu [7191 1342] in Hainan stated with emphasis, "The mistake of speculative trading in such supplies as automobiles basically stems from the desire to make a 'killing' on the very first attempt. The lesson derived from the mistake of showing exclusive concern for the interests of Hainan over those of the entire nation is a bitter one. Greater difficulties in the economic development of Hainan will be encountered this year and the next. It is only by learning our lessons well, by proceeding from the actual circumstances prevailing in Hainan, by taking advantage of its assets and minimizing its shortcomings, and by planting our feet firmly on the ground that we can engage in the development and construction of the island and that we can look forward to small changes in 5 years, medium changes in 10, and vast changes by the end of the century."

In discussing the industrial and agricultural production situation in Hainan, Meng Qingping said, "The open door policy has speeded up the economic development of Hainan and brought profit and wealth to the island. Whereas the GVIAO of Hainan came to 1,923,000,000 yuan in 1980, it increased to 3,665,000,000 yuan in 1985 at the rapid annual progressive rate of 13.8 percent. In the past, the local enterprises within the budget of the Hainan Administrative District suffered losses every year. It was not until 1983 that losses began to be replaced by profits. In 1985, profits amounted to almost 21 million yuan. In 1980, the average annual income of the peasants came to only 139 yuan and that for staff workers only 699 yuan. By 1985, the average annual income of peasants had increased to 365 yuan, while that for staff workers had increased to 1,080 yuan. The livelihood of the ordinary people has shown a definite improvement."

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## FINANCE AND BANKING

### GOLD COMPANY OFFICIAL DISCUSSES MOVES TO CURB SMUGGLING

HK120252 Beijing CHINA DAILY in English 12 Aug 86 p 1

[Article by staff reporter Liu Dizhong]

[Text] China's gold production increased steadily over the first seven months of this year, coupled with a dramatic rise in retail sales of gold jewelry and smuggling of the precious metal.

Gold output rose 8.7 percent over the same period last year, hitting an all-time high for the corresponding periods over the past three decades.

An official of the China Gold Company attributed the increase to the nationwide gold rush which has boosted production since 1978, when collectives and individuals were given permission to mine gold.

The output target for this year is aiming for a 10 percent increase over the previous year, the official said.

Over the past seven months, the amount of gold produced by rural prospectors went up more than 11 percent. On average, they produced about half the nation's annual gold output.

At present, more than 180,000 former farmers are involved in the "gold rush." About half of them are individual panners and the rest are working in small gold mines owned by local governments and collectives.

The rush for gold has also led to serious levels of smuggling. "If the individual panners turn all their products over to the state, the nation's output will increase by an even bigger margin," the official said.

In the first six months of this year, for example, more than 60,000 individual prospectors in the northwestern Qinghai Province sold only 300 ounces of gold to the state.

The problem has been also serious in other gold-producing provinces, such as Guangdong, Ningxia and Inner Mongolia.

Various new measures will be introduced to strengthen control over individual panners along with a continuous crackdown on smugglers, the official said. They include expanding the gold buying network throughout the country and strengthening the supervision of the rural prospectors.

Also, the state is urging individuals to organize themselves and mine gold collectively, the official added.

The gap between the domestic and world prices of gold is also believed to have contributed to the smuggling problem. Last year, the state raised the purchase price from around 697 yuan an ounce to 895 yuan for gold sold by individual panners. The official admitted the purchase price was still low compared with world levels. Yesterday gold prices stood at 1,391 yuan (\$376) an ounce on the New York Commodity Exchange.

The official said the state had no plans to narrow the gap, but added that the price would have to be readjusted in the future.

However, gold jewelry prices on the domestic market are higher than world levels. In China, gold products now sell for about 1,700 yuan an ounce. Retail sales of gold jewelry have been rising since the beginning of the year. Last year, the nation's total sales amounted to more than 2 billion yuan, a 14-fold increase over 1984.

Sales this year are expected to surpass that figure as gold jewelry is becoming more and more popular throughout the country, the official predicted.

There are more than 100 factories producing gold products in China. Their capacity is expected to show a 20-fold increase over 1984, when there were only 15 factories across the country.

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CSO: 4020/417

## FINANCE AND BANKING

### OFFICIAL DISCUSSES BANKING DRAFT AMENDMENTS

HK150258 Beijing CHINA DAILY in English 15 Aug 86 p 2

[Article by staff writer Lun Yongeng]

[Text] Qinhuangdao--The Bank of China has presented delegates attending a bank meeting here with draft amendments to the Interim Regulations on Loans to Sino-Foreign Joint Ventures.

At the meeting, an official from the bank's first credit department said that, because existing regulations were no longer suitable, the bank had decided to make amendments to guide its expanded lending operations.

He said that since the initial regulations were put into effect in 1981, the number of new businesses using foreign capital has increased drastically, creating new demands for bank's loans.

The original regulations which provided a legal guideline for the bank on loans to Sino-foreign joint ventures were considered to be outdated.

To keep in touch with new requirements, the bank decided to expand the coverage, and the title, of the regulations to Regulations on Loans to Businesses Involving Foreign Investment. The amendments are aimed at improving the bank's loan operations and the investment environment for foreign investors in China.

Central government policies and experience over the past five years were the basis for the draft amendments, the official said. The amendments proposed that the bank's present loan coverage be expanded to cover Sino-foreign equity and contractual joint ventures and solely-foreign owned businesses. However, he said his bank will give loan priority to export-oriented businesses to help them introduce advanced foreign technology and equipment.

The proposed categories of loans include fixed asset and circulating capital loans. The fixed-asset loans are aimed at construction, equipment purchases, new projects and the expansion of old businesses.

The circulating capital loans caters to the business need for a minimum amount of working capital within a certain period, or to temporary needs due to seasonal or other special variations. The bank will provide syndicated loans for special needs. It will pay loans in Renminbi, U.S. dollars, and West German deutsche marks and other currencies will be available if needed.

The draft amendment stipulates that the board of directors or the executive body of any legal group registered with the State Administration of Industry and Commerce and having accounts and the Bank of China can submit applications. The bank will then decide whether or not to grant a loan. The amendments also include strict clauses on loan guarantees.

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CSO: 4020/417



## INDUSTRY

### FIRST SET OF REGULATIONS GOVERNING LEASING INDUSTRY

HK160532 Beijing CHINA DAILY in English 16 Jul 86 p 2

/Article by staff reporter Zu Ling/

/Text/ China is pooling expertise from major economic sectors as it prepares its first set of regulations to govern the country's burgeoning leasing industry, CHINA DAILY was told yesterday.

The 30-clause regulation, drafted last April, was recently submitted to the State Council's Economic Legislation Research Centre for deliberation and is expected to be put into effect this year.

The regulation, which will serve as a forerunner to formulation of the nation's first Leasing Law, comes at a time when leasing is gaining widespread acceptance as a mechanism for financing equipment needs in the country. Demand for such services is rapidly rising, said Xu Weirong, executive director of China Leasing Co., Ltd.

Under the auspices of the State Economic Commission, the regulation was drafted by the China International Trust and Investment Corp. (CITIC), to which the China Leasing Co. is affiliated.

"We have been seeking advice and suggestions from Customs, the Ministry of Foreign Economic Relations and Trade, the People's Bank and the State Administration of Foreign Exchange," the 73-year-old Xu said.

The regulation, designed to advance development of the country's fledgling leasing industry, will cover administration of leasing organizations, specifications for their formation, and the rights and obligations of those engaged in the business.

"The regulation will ensure smooth progress in the leasing industry," Xu said. "Leasing was virtually unknown in China before 1980."

China's first modern leasing company--China Orient Leasing Co. Ltd.--was established in April 1981 as a Sino-Japanese joint venture. Three months later, the China Leasing Co. Ltd. was set up as a partnership between CITIC and the State Administration of Supplies.

Its shareholders include the ministries of light industry, electronics, chemical industry, water resources and electric power, as well as four major financial institutions.

Since 1981, new leasing companies, now totalling 40, have proliferated across the country. They include 13 Sino-foreign joint ventures and 27 state-owned leasing companies. To date, 1,100 leasing agreements have been signed, both in China and overseas, worth \$800 million.

The state-owned China Leasing Co. Ltd., the country's largest, is reporting a huge growth in business this year.

It has signed or is close to signing leasing contracts worth \$50 million in the first half of this year. Partners mainly come from Japan, the Federal Republic of Germany, the United States and Italy.

The leasing contracts will involve imports of production lines to turn out chocolate, video recorders, beer, paper, shoes and polyamide fibre.

China's ambitious modernization drive needs substantial imports of advanced equipment and technology to upgrade its factories.

At the moment, however, China is short of foreign currency. An increasing number of Chinese businesses are obtaining foreign equipment through leasing arrangements, Xu said.

"The present target for my leasing company," he said, "is to facilitate the technical renovation of thousands of small and medium-sized factories at provincial and municipal levels where equipment is largely obsolete and backward, resulting in poor competition on the world market," he said.

Many of these small plans have access to retained foreign exchange earnings sufficient enough to lease machinery and technology but not purchase it all at once, he said. Leasing, rather than purchasing, equipment would save money for the country and for industry.

Over the past few years, leasing has mainly focused on importing production lines for electronics and light and textile industries.

Xu noted that many small Chinese factories cannot secure a foreign exchange quota and have only renminbi on hand.

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CSO: 4020/394

## INDUSTRY

### INDUSTRIAL ACCIDENT DEATH TOLL RISES

HK150853 Beijing CHINA DAILY in English 15 Jul 86 p 3

/Text/ Industrial accidents have killed 82 workers in Beijing this year so far, more than in the whole of 1985, BEIJING EVENING NEWS reported on Sunday.

The problem has been most serious at the Capital Iron and Steel Co. and Beijing Mining Administration Bureau. Since the beginning of this year, 8 workers have been killed in 6 industrial accidents at the iron and steel company, while the bureau has reported 11 deaths in 11 accidents.

At a municipal conference on safety at work at the weekend, Vice Mayor Zhang Jianmin called for more attention to safety precautions to stem the rising number of industrial casualties.

He said safety regulations should be strictly implemented by factory leaders with supervision by trade union safety inspectors to prevent more industrial and mining accidents.

According to sources at the All-China Federation of Trade Unions, the total industrial death toll for the whole country rose by nearly 8 percent last year. This was the first time the death toll had increased since 1979. From 1979 to 1984 it dropped by an annual average of 6.96 percent.

From January to July 1985, for instance, 18 cases of fire, explosion and gas poisoning were reported at chemical factories around the country. In each case no fewer than three workers were killed. And in a coal mining accident in Yizhang County, Hunan Province, at least 50 miners died after a pit gas explosion.

Prompted by the deteriorating situation, the state sent six safety inspection teams to 18 provinces, municipalities or autonomous regions in a nationwide safety campaign during April this year.

They found that the number of casualties in labour accidents had been high in the first quarter of this year because of poor production management and violations of industrial safety measures.

Although the state has set strict safety regulations concerning industrial production, many enterprises were only concerned with output and profits, failing to require their workshops to implement these regulations strictly, so long as the workshops fulfilled the contracted production quotas, the inspection teams found.

As 1986 was the 1st year of China's Seventh 5-Year Plan, the All-China Industrial Safety Commission headed by State Councillor Zhang Jinfu pledged earlier this year to make every effort to reverse the worsening trend by especially tightening up control of mine safety, traffic and fire hazards, toxic dusts and polluting fumes.

State supervision will be strengthened in the next 5 years when inspection teams from central departments will be sent out regularly to check safety measures at local enterprises around the country.

According to a XINHUA report, the situation is improving in the coal mining industry. In the first half of this year, the accident death rate per 1 million tons of coal output dropped by 24.5 percent, compared with the same period last year.

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CSO: 4020/394

## INDUSTRY

### EFFORTS TO IMPROVE PACKAGING OF COMMODITIES

HK170944 Beijing CHINA DAILY in English 17 Jul 86 p 2

/Article by staff reporter Zhao Lijuan/

/Text/ China is putting renewed emphasis on improvement of packaging of commodities.

Starting this month, the state will strictly monitor restrictions against poorly wrapped goods, CHINA DAILY was told yesterday.

The State Economic Commission says that producers of commodities will be responsible for packaging and that poorly wrapped commodities will not be allowed to enter the market nor be exported.

That tough stance is part of a strategy to shed the backward image of China's packaging industry. Poor packaging causes estimated losses in the billions each year and inhibits the sale of many products, even those of fine quality.

A national inspection programme, aimed at improving the country's packaging industry, was launched in the second half of 1984. Heavy damage caused by poor packaging was greatly reduced because of the surveillance, an official from the China Packaging Technology Association told CHINA DAILY yesterday.

Last year, losses caused by poor packaging were reduced by 1 billion yuan, a 10 percent drop, he said.

This year, the country wants to increase that figure to 1.2 billion yuan. That can be achieved only if the industry improves transport, storage, loading and unloading, the official said.

Meanwhile, losses which amounted to the equivalent to 1.1 percent of the total industrial and agricultural output value in 1982 should be reduced to below 0.5 percent by 1990, he said.

To attain the goal, the industry will stress improving packaging of exports, foods, perishable commodities, and inflammable or explosive goods.



A packaging promotion group for export commodities was recently set up to supervise the quality of packaging and to increase China's competitiveness on international markets. The group is aiming to eliminate the reputation of Chinese goods as "first class quality, second class packaging and third class price."

The group is jointly organized by the state's Ministry of Foreign Economic Relations and Trade, the Bureau of Commodity Inspection, Standards Bureau, Ministry of Railways and the People's Insurance Co. of China.

The state is placing particular emphasis on improving packaging for nine commodities. They are cement, glass, chemical fertilizers, pesticides, porcelain, bicycles, aquatic products, fresh fruit and fresh eggs.

Top quality packaging relies on advanced technology and scientific management. In the past 5 years, the state spent 100 million yuan introducing foreign technology. Local investment was even larger.

However, the official said, much of China's packaging industry still depends on such primitive materials as straw rope, gunny sacks and cane baskets. Modern materials, such as plastics and heavy-duty corrugated cardboard, still have to be imported.

Lack of up-to-date materials is causing heavy losses in export goods. Last year, losses caused by poor packaging for exports amounted to about 50 percent of the total.

Another serious problem hindering progress in the industry is shortage of capital, the official said. All government departments should support the industry by preferential taxation and prices, greater investment in renovation and assurance of material supplies.

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CSO: 4020/394

## INDUSTRY

### BRIEFS

SHANGHAI OIL TANKER LAUNCH—Shanghai, 28 Jul (XINHUA)--A 65,000-ton oil tanker built with a new technique was launched here today. Designed and built by the Shanghai Jiangnan Shipyard, which has a history of 121 years, the ship was built in two separate parts and then welded into one. The tanker, the largest of its kind ever launched in China, measures 231.2 meters long by 35.6 meters wide and 47.3 meters high, with a deadweight capacity of 65,593 tons. China launched its first 65,000-ton oil tanker in September 1984. It was built by Dalian Shipyard in northeast China's Liaoning Province. /Text/ /Beijing XINHUA in English 1209 GMT 28 Jul 86 OW/ 12228

CSO: 4020/394

## SMALL-SCALE ENTERPRISES

### STRENGTHENING QUALITY CONTROL OF TOWNSHIP ENTERPRISES URGED

Beijing ZHONGGUO XIANGZHENQIYE BAO in Chinese 12 Mar 86 p 3

[Article: "Opinions on Strengthening Product Quality Management Work in Township and Town Industries"]

[Text]

#### NOTICE

To all provinces, autonomous regions, municipalities, planning units in urban people's governments, ministries under the State Council and organs under their jurisdiction:

Based on the spirit of instructions from leading comrades in the CPC Central Committee concerning "The Need To Focus on Product Quality in Township and Town Enterprises," the State Economic Commission, Ministry of Agriculture, Animal Husbandry, and Fishery and the State Industry and Commerce Administration studied and formulated these "Opinions on Strengthening Product Quality Management Work in Township and Town Industries." They have been approved in principle by the State Council and now are being issued for trial implementation. We ask that all of you inform us as soon as possible about the situation during trial implementation to allow their revision and perfection.

[Signed] The State Economic Commission, Ministry of Agriculture, Animal Husbandry, and Fishery and the State Industry and Commerce Administration  
31 January 1986

Since the 3d Plenum of the 11th CPC Central Committee, China's township and town enterprises have undergone amazing development and a group of enterprises has appeared with good product quality, high economic results, and prestige in Chinese and foreign markets. They are making a contribution to sustained, coordinated, and stable development of the national economy. There are, however, enterprises that ignore product quality. Some lack the most basic conditions to guarantee quality and, therefore, cannot guarantee product quality, safety, or reliability. A few do shoddy work and use inferior materials, manufacture in a slipshod way, or even pass poor-quality products off as name-brand ones, or they may continue to make products that the state has ordered them to abandon. If we fail to deal with this situation seriously, we may shake the people's faith in industrial products and develop a serious social problem. For

this reason, economic commissions at all levels, township and town enterprise administration departments, administrative management departments, industry and commerce administration organs, and quality supervision departments should strengthen management and supervision of the quality of township and town enterprise products to protect the interests of the state and vast numbers of users, to guarantee smooth progress in the socialist modernization drive, and to bring about stable and healthier development in township and town enterprise.

1. Development of township and town enterprises is essential to invigorate China's rural economy. There must be strict adherence to the principles of the CPC Central Committee concerning guidance in the development of township and town enterprises: "active support, rational planning, correct guidance, and stronger management." The decision to set up a township and town industrial enterprise of course must be based on real needs and situations, adaptation to local conditions, action in accordance with capabilities, stable progress, and less blind action. All township and town enterprises must do more to correct their administrative ideology, adhere earnestly to the principle of "quality is number one" and strive to improve management and administration, raise the quality of products, improve production technologies, raise economic results, and be concerned with preventing pollution of the environment.

2. Township and town enterprise administrative departments should establish quality management organs that will work in conjunction with industrial management departments and industry and commerce administration organs to strength management and supervision over product quality.

We should concentrate our forces and focus on industrial enterprises at the township (town) level and key village-run industrial enterprises. The focus should be placed on five items of work: a) with product quality as the core, make further improvements in economic responsibility systems. There should be clear stipulations regarding product quality in responsibility systems and strict systems of rewards and punishments. Plant managers (directors) should have full responsibility for product quality; b) each enterprise should establish quality-inspection organs or assign specialists under direct leadership of the plant manager (director) and formulate product quality-inspection systems; c) obtain the measurement and inspection equipment needed for product quality considerations, especially measurement devices used to control technical processes, and guarantee the accuracy, effectiveness, and correct utilization of measurement and inspection equipment; d) focus on technical training for all employees and improve the quality of employees; e) establish depreciation fund systems and gradually raise depreciation rates to accelerate equipment renewal and transformation. During the process of updating and transformation, special attention should be given to renewal and full outfitting of the measures needed for quality inspection. We call for gradual standardization of quality administration in township and town enterprises and for some enterprises to attain advanced levels in China.

The main concern in the industrial enterprises below the village level is to strengthen quality supervision and make sure that no "fake, fraudulent, poor-quality and bad" products and products the state has ordered stopped appear in the market.

3. Township and enterprises should organize production according to product technical standards and technical norms and on the basis of the principle of "five things not permitted:" a) substandard products should not leave the factory nor be included in output or value of output; b) substandard raw materials and parts cannot be used or assembled; c) products whose demise has been announced cannot be produced and sold; d) nothing can be produced if there are no product quality standards, quality-inspection organs or quality-inspection measures; e) there can be no deception, switching substandard products for good ones, fake labeling or fraudulent brands. There are "three things are not permitted" in township and town enterprises that we must be acutely concerned with at present: the first is not permitting substandard products to leave the factory, the second is not permitting the production and sale of products that have been eliminated, and the third is not permitting fraud. A system of guaranteed repair, replacement, and return should be implemented for products leaving the factory, and the products leaving the factory must display the factory name and location. Actual compensation should be made for the economic losses to users caused by substandard product quality.

4. The quality of township and town enterprise products that are organized by economic commissions and standards departments at all levels should implement joint supervision and management by administrative management departments and township and town enterprise administrative departments. Administrative management departments should inspect and supervise the quality of township and town enterprise products to change the old situation of the past in which they dealt only with the state-run sector and "large collectives" while ignoring township and town enterprises. The first step can be to begin with all products made by state-run industrial enterprises and township and town industrial enterprises. The organization of quality comparisons and inspections for an entire industry should include township and town industrial enterprises. All products for which production license systems have been implemented should be dealt with the uniformly in township and town enterprise. Administrative management departments should work jointly with township and town enterprise administrative departments for a combined focus on the issuance of production licenses. Production licenses should be issued as quickly as possible for products that conform to the stipulated quality standards. Enterprises that cannot meet quality standards should attain them in a limited period of time.

Supervisory product quality sampling done under state authority by quality supervision departments should include the products of township and town industrial enterprises. All levels of the government, township and town enterprise administrative departments, and industrial and commercial administrative management organs should be responsible for dealing with problems that appear during inspection.



5. Reorganize township and town industrial enterprises that make production materials and consumer goods urgently needed in markets. During 1986, we call on economic commissions in all areas to use township and town enterprise administrative departments as the focus for joint work with administrative management departments, industry and commerce administrative management organs, and quality-supervision departments to organize joint work groups to carry out strict one-time inspection and reorganization according to the "Food Product Public Health Law," "Medicine Management Law," "Measurement Law," the "Conditions for Safety Inspection of Boiler Pressure Vessels," Provisional Conditions for Production Licensing for Industrial Products," and so on, for township and town enterprises that produce important production materials and consumer goods urgently needed in the market, especially those that produce foodstuffs, medicines, electrical equipment, pressure vessels, measuring equipment, powered vehicles, and other things that concern personal health and safety. Any enterprises that do not meet state stipulations, do not have basic production conditions or lack quality-assurance conditions should be reorganized quickly. Any enterprises that are unable to produce goods that meet standards even after reorganization should be provided with guidance in shifting to another line of production.

In the future, industry and commerce administrative management organs should work in conjunction with township and town enterprise administrative departments to carry out strict examinations of new township and town industrial enterprises, especially those that set up processing enterprises, in accordance with state laws and regulations and local decisions. Approval for startup should involve strict checks and be given only to those that have the basic production and management conditions and conform to enterprises registration requirements. Product inspection and approval should be organized for new products and the first large batch of products produced by an enterprise and they should be permitted to go into production only when they are inspected and determined to meet specifications by township and town enterprise administrative departments in conjunction with administrative management departments. Production of products that have not undergone examination and approval or products that do not meet specifications should be prohibited and they should not be permitted to go on the market.

6. Develop comprehensive quality management and improve the level of modernized management in enterprises. Comprehensive quality management has become widespread in China's industrial enterprises over the past several years. It is a scientific method for improving levels of modernized management and also is adapted to township and town industrial enterprises. All regions should select township and town industrial enterprises. All regions should select township and town industrial enterprises with rather good conditions for trials and gradual extension. The extension of comprehensive quality management should begin with a concern for real conditions in township and town enterprises. We should not act indiscriminately and must prevent formalism.

7. Strengthen guidance and support for township and town industrial enterprises in the area of product quality improvement. Economic

commissions in all areas and all relevant departments should make improvement of product quality in township and town industrial enterprises the order of the day in their departments. Besides carrying out inspection and supervision of product quality in these enterprises, they also should take the initiative to provide services to them, such as providing product technical standards and technical information, assisting enterprises in making diagnoses, taking on tasks for technical advice, measurement and inspection, and so on. Quality supervision departments at all levels should orient toward society and provide services to product quality inspection in township and town enterprises. Based on real needs, regions with the proper conditions should gradually establish county-level quality-inspection organs, and they can use existing enterprise inspection measures and gradually set up quality supervision and inspection networks to make local inspections of the quality of township and town enterprise products. Institutions of higher education, scientific research organs and large state-run industries should employ their own technical and manpower advantages to develop nonprofit technical services and, on the basis of voluntarism, and mutual benefit, assist township and town industrial enterprises to improve product design, update production techniques, renew technical equipment, and improvement management and administration.

In combination with better management of material trade fair centers, state unified raw materials and materials distribution departments should provide preferential treatment and special supplies of raw materials for the best products in the nation, in an industry or in a province, products related to personal safety and foreign exchange-earning export products to the township and town industrial enterprises that require them.

To change the situation of a lack of skilled personnel in township and town enterprises as quickly as possible, education and scientific research departments also should assist township and town enterprise management departments to focus on personnel training. Areas with the proper conditions can set up employee middle schools and middle vocational schools, and an appropriate number of college and polytechnical school graduates should be assisted to township and town enterprise administrative departments.

8. All areas should adhere to the spirit of these decisions and strengthen supervision and management of product quality in urban collective enterprises (including intellectual and youth centers, labor service companies, and so on that are located in jointly managed commercial enterprises, neighborhood enterprises, school-oriented factories and state-run enterprises).

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CSO: 4006/950

## SMALL-SCALE ENTERPRISES

### RURAL INDUSTRIAL OUTPUT INCREASES BY 19 PERCENT

OW291713 Beijing XINHUA in English 1458 GMT 29 Jul 86

[Text] Beijing, July 29 (XINHUA)--The total first-half output value of China's rural industry topped 150 billion yuan this year, up 19 percent over 1985, a senior official said today.

Zhang Yi, deputy director of the administration of rural enterprises of the Ministry of Agriculture, Animal Husbandry and Fisheries, told a news briefing here rural enterprises have "made better use of local resources" this year as the central government has cut back loans.

According to ministry statistics, 69.8 million people--or 19 percent of the rural work force--work in the country's 12.22 million collective and private rural enterprises.

For all of 1985, their output value totaled 272.8 billion yuan--17 percent of the national output value. And they earned four billion dollars in export income for the country.

In these and other ways rural industry has become vital to China's economy, Zhang said. For example, he explained, the rural building materials industry produced 53 percent of the 52 billion yuan national total.

And, Zhang said, rural industry is "an important part of national economic development." He said rural coal mines accounted for 61 percent of the 230 million-ton increase in China's coal production between 1978 and 1985.

To enhance township exports, Fujian Province will host an exhibition in Beijing of products by rural enterprises from August 15 to 30, Zhang said. A national rural enterprises' export commodities fair will open in Beijing August 27.

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CSO: 4020/407

## SMALL-SCALE ENTERPRISES

### INCREASED RURAL COMMODITY PRODUCTION CHANGES PATTERNS

OW290954 Beijing XINHUA in English 0733 GMT 29 Jul 86

[Text] Beijing, July 29 (XINHUA)--China's rural commodity production has brought a "historical change" to the relations between town and country, said an official of the rural industry administration today.

The old unitary pattern that the countryside exchanges farm produce for industrial goods from cities is longer true because urban-rural cooperation now involves an increasing number of state-owned, collective and private businesses. [sentence as received] A variety of urban-rural economic entities, development centers and production bases have become a new powerful factor in China's economy.

China has more than 12 million township-run enterprises with almost 70 million employees, covering 60 percent of the total employees of the country, the official said.

The output value of rural industry, building trade, transport businesses, and commerce reached more than 40 percent of the total value of the rural social product by the end of last year.

The peasants now go to cities not only to sell industrial and agricultural products but also open restaurants and hotels and invest in other fields. There are at least 10 million peasants now engaged in different businesses in the cities.

Free markets maintain close links between urban and rural consumers. Throughout the country, there are more than 61,000 such markets, 1,200 wholesale markets for agricultural and sideline products, and over 50,000 market towns, according to an official of the State Statistics Bureau.

Rapid development of the rural economy has reduced the distinction between town and country, the official said. By the end of 1985, the difference between the urban and rural consumer levels had been narrowed to "an all-time low" since the founding of the new China in 1949.

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## SMALL-SCALE ENTERPRISES

### BRIEFS

JIANGSU FOREIGN EXCHANGE EARNINGS--Beijing, 15 Mar 86--In 1985, the Jiangsu Province's township and town enterprises provided the state with gross export earnings worth 600 million yuan and created foreign exchange earnings of \$175 million, equal to 11.3 percent of total exports in Jiangsu and first place in China. Almost 1,000 township and town enterprises in Jiangsu have turned toward international markets and are exporting more than 700 commodities including canned foods, woven grass and reed articles, plastic bags, cotton cloth, clothing, leather products, metal tools, electronic components, household appliances, and so on that are being sold in over 90 countries and regions throughout the world. [Text] [Beijing NONGMIN RIBAO in Chinese 15 Mar 86 p 1] 12539/12781

CSO: 4006/950



## CONSTRUCTION

### SHANGHAI SPEEDS UP INFRASTRUCTURE CONSTRUCTION

OWC90652 Beijing XINHUA in English 0621 GMT 19 Jul 86

/Article: "Shanghai Speeds Up Infrastructure Construction"

/Text/ Shanghai, 19 Jul (XINHUA)--The 6 million urban dwellers in Shanghai, who for years had to drink poor-quality water from the city's major water source, the polluted Huangpu river, will have cleaner water in 1988.

Some 7,000 workers are building a canal to divert water from the unpolluted upper reaches of the river. When completed, the canal, the biggest municipal construction project in Shanghai since 1949, will supply 1 million cubic meters of clean drinking water a day.

A city official said that this is one of the 100 infrastructure projects being built in this leading industrial city in China.

"These involve transportation, energy development, public utilities, environmental protection and housing," he added.

When a new railway station opens in December 1986, express passenger train services will be available between Shanghai and all provincial and regional capitals in China, except Tibet's capital of Lhasa.

The station will be equipped with such facilities as a building with 11 waiting halls and seven 500-meter platforms.

The city authorities have decided to step up infrastructure construction over the next 5 years in an effort to improve living conditions for local residents and investment environment for overseas firms.

The money the city government spent on urban construction in the first half of this year was 86.8 percent more than during the same period of last year, the official said. He did not give specific figures.

The second tunnel beneath the Huangpu river will be completed next year, greatly easing strains on ferry ships for both motor vehicles and pedestrians. The tunnel is 2,000 meters long, 7.5 meters wide and 4.5 meters high.

Meanwhile, 200,000 urban families will swap coal stoves for gas cookers by the end of next year, following completion of a huge gas works in the city's eastern district. The city authorities plan to supply gas to all the 800,000 households now still using coal stoves by the end of 1990.

Moreover, about 92,000 families are expected to move into new apartments with a total floor space of 4.6 million square meters by the end of this year, the official said.

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## DOMESTIC TRADE

### RETAIL SALES BRISK DURING FIRST HALF OF 1986

#### Some Supplies Ample, Others Short

OW280714 Beijing XINHUA in English 0605 GMT 28 Jul 86

[Text] Beijing, July 28 (XINHUA)—China's markets have ample supplies of most commodities although some high quality products are scarce, particularly in rural areas, the ECONOMIC DAILY reported today.

The paper said the country's retail sales rose 11.8 percent in the first half of this year to 235.1 billion yuan (about 63.5 billion U.S. dollars), according to the State Statistics Bureau.

In real terms, the increase came to 5.9 percent—the lowest since 1981 for the January-June period.

The slower retail growth is in line with government plans to moderate increases in consumer demand to check shortages and inflation.

Still, first half food sales rose 11.8 percent in real terms, although grain sales dropped 14.6 percent. Sales of such non-staple food as edible oil, pork, sugar, eggs, vegetables and fish rose between 5.3 and 21 percent.

Purchases of clothing and textiles were up 4.3 percent. Sales of cotton cloth, cotton-polyester blended textiles and polyester fabrics fell between 12.7 and 14.2 percent, while purchases of ready-to-wear clothing increased 9.9 percent.

Meanwhile, sales of other consumer goods shot up 17.3 percent overall, ranging from 6.4 percent for cassette recorders to 50 percent for color televisions.

However, some quality goods are "in short supply, particularly in the countryside," the paper quoted the State Statistics Bureau as saying.

For example, such consumer durables as refrigerators and televisions and premium domestic cigarettes and liquor are now virtually unavailable in rural areas. In addition, such small products as ceramics, enamelware, glassware, nails and iron wire are scarce.

According to the paper, much of this scarcity is attributable to a 5.5 percent decline in rural supply and market cooperative purchases from state stores in the first half to 13.9 billion yuan (about 3.59 billion U.S. dollars).

## Rural Sales Up

OW020814 Beijing XINHUA in English 0714 GMT 2 Aug 86

[Text] Beijing, August 2 (XINHUA)--The total volume of rural retail sales in the first half of this year was up 9.3 percent over that of same period of last year, according to Ministry of Commerce statistics.

The number of consumer goods increased nine percent and the agricultural means of production 10.6 percent.

Rural consumers now have different needs as the difference of their income increased over the past few years. In more developed areas, the demand for quality and expensive goods has become great. Goods which used to be unsalable in the countryside, including milk powder, tinned food, beer, and some light industrial goods have now found a large market in China's coastal provinces.

And richer peasant households are willing to spend their money on silk and wool materials, high-quality garments, leather shoes, cosmetics, electrical appliances and other expensive goods which were luxuries for them just a few years ago.

Electrical appliances, such as television sets, cassette recorders and washing machines, fell short of demand in richer areas. At the same time, peasants have become choosy in buying these goods.

Building materials sell well. At present, two-thirds of peasant families throughout the country have built new houses, and some of them in more economically developed areas want to expand or rebuild their houses.

Commercial officials said that it is urgent to increase supply of daily industrial goods for the countryside.

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CSO: 4020/407

## FOREIGN TRADE AND INVESTMENT

### COORDINATION GROUP PREPARES FOR REJOINING GATT

HK051253 Hong Kong WEN WEI PO in Chinese 3 Aug 86 p 4

[Report by correspondent Cheng Hsiang [4453 5046]: "In Preparation for Rejoining the GATT, China Sets Up a Coordination Group Under the State Council"]

[Text] According to the Ministry of Foreign Economic Relations and Trade, the GATT preparatory committee for a new round of multilateral trade talks has decided to invite China to attend as an observer the ministerial conference of member-countries to be convened in Punta del Este in Uruguay in September. This will be the first time China will attend multilateral trade talks of the GATT.

It has also been learned that in order to hold negotiations on the restoration of China's membership in GATT as early as possible, the State Council has set up a coordination group headed by State Councillor Zhang Jingfu with the help of the relevant responsible persons of the Ministry of Foreign Affairs, the Ministry of Foreign Economic Relations and Trade, the Ministry of Finance, the People's Bank of China, and the General Administration of Customs. It has been planned that China will present an official memorandum to member countries of GATT by the end of this year. The memorandum is being drawn up. China has employed several foreign experts as advisers and is striving to rejoin GATT within 3 years.

China believes that rejoining GATT has the following four advantages: 1) It will be accorded most-favored-nation treatment; 2) its export goods will be exempted from customs duties in overseas market; 3) it will not be easily accused of "dumping goods" by the developed countries; and 4) it will be more qualified to speak on some major world trade issues.

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## FOREIGN TRADE AND INVESTMENT

### INCREASED INDUSTRIAL TECHNOLOGY EXPORTS URGED

Tianjin JISHU SHICHANG BAO in Chinese 4 Mar 86 p 1

[Article: "Take Action To Expand Technology Exports; Open Up Foreign Technology Markets; A New Line of Work Is Underway; There Are Broad Prospects for Exporting Large Amounts of Industrial Technologies"]

[Text] Implementation of the Seventh 5-Year Plan during 1986 has permitted China to begin exporting technology. This is a new area of work and the relevant departments and units have explored ways to open up foreign technology markets and are preparing to formulate the appropriate measures and methods.

China has exported more than 30 lines of technology to foreign countries since 1980 and over the past few months alone has transferred Vitamin C ketone group [gulong] acid technology to the [Luoshi] Company in Switzerland, emulsified dynamite production technology to Sweden's Nobel Company and special Chinese character coding system technologies to Italy's [Haolihuode] Company. Adequate attention to technology exports, however, remains to be seen in all areas. There have been major improvements in scientific and technical standards in China over the past few years. More than 20,000 important scientific research achievements have been made and more than 1,000 projects have received major invention awards from the state. In 1985 alone, 1,700 S&T projects received national level scientific and technical progress awards. Moreover, many industrial technologies are attracting the attention of several nations, particularly in the Third World. The establishment of a patent system in China has encouraged the enthusiasm of the masses for invention and innovation. More than 9,000 patent applications had been submitted within China up the end of 1985, and they are an important source of technology exports. According to analysis done in the relevant quarters, China has major potential and broad prospects for technology exports. The focus of China's exports will be industrial technologies, and some laboratory technologies also should be exported selectively. There are abundant sources and mature conditions for industrial technologies and they also will encourage product exports. Some new scientific and technical achievements will be exported and it is expected that they will be rather attractive to the developed nations. Exports of these technologies, however, should be done with an eye to the development situation within China. In principle, any technology that can

be developed and used to make products in China should be developed at home. For those which cannot be developed in China because of such things as investments, techniques, equipment and other reasons, we should encourage their export, but we also should pay attention to using contracts to protect the technologies in foreign countries.

All of the relevant departments now are engaged in study and discussion of such things as how to break into foreign technology markets, how to strengthen management of technology exports and other questions to formulate the appropriate policies and methods and to provide protection for exported technologies and encourage technology exports. The Ministry of Finance and the China Patent Bureau have joined forces to set up a Patent Fund to encourage units that own technologies to apply for foreign patents and provide a partial solution to technology exporting units with shortages of foreign exchange that cannot afford to apply for foreign patents.

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CSO: 4008/2085

## FOREIGN TRADE AND INVESTMENT

### 'MASSIVE' CURRENCY DEVALUATION ANALYZED

Duesseldorf HANDELSBLATT in German 9 Jul 86 p 7

[Article by Peter Seidlitz: "Beijing's Monetary Flexibility: Chinese Devaluation Could Be First Step to Liberalization"]

[Text] The quite massive devaluation of the Chinese currency should not be regarded solely as an attempt by the Beijing government to stimulate exports and thereby fill up its foreign exchange chests, but also as a sign that China would increasingly like to guide the country's economy by means of its exchange policy. Beijing's more flexible monetary policy, which has already produced a slow slide of the renminbi vis-a-vis hard Western currencies over the past 2 years, and has now given it another push with a 13.6 percent devaluation, is seen by observers of the Hong Kong financial market as a step toward an eventual total lifting of the country's exchange controls.

The Chinese currency is still far removed from its actual value, which can be measured on the black market. Before the devaluation over the weekend, the renminbi was traded on the black market at some 50 percent below the official rate. And this despite the fact that the Hong Kong dollar--which is in circulation as "currency," especially in southern China, and is completely accepted as a means of payment--is today worth almost twice as much as the 1983 official rate. In 1983 one could have gotten 27.185 yuan for 100 Hong Kong dollars at the bank; at the end of last year 37.52; before last Friday's devaluation 40.88; and today 47.34.

China wants to shut down the black market, which not only exists for currencies like the Hong Kong dollar, but above all trades in China's own "Foreign Exchanges Certificates" (FEC). This is the "intermediate currency," resembling Monopoly money, which tourists and businessmen receive in Beijing for dollars, francs, and marks, and with which they must pay their bills--and in which export and import transactions are settled.

China will shortly do away with the Foreign Exchange Certificates. Although no date has yet been announced, the coupon currency has really lost any financial policy purpose, and in fact is actually counterproductive, as it has become the "genuine" standard of value for the Chinese currency, while the national currency, the yuan, has been downgraded as the ruble has been in the Soviet Union.

The immediate goal of the devaluation was naturally an attempt to make China's export goods more competitive. What industrial or agricultural goods China has, however, are already ridiculously cheap. China will not be able to sell more industrial goods as long as the supply of goods does not improve. Fifty to 60 percent of all Chinese exports, moreover, are textiles and oil. An increase in oil exports, which stand at 210 million tons, is not foreseen, and significantly more textiles cannot be sold because of the quotas existing in the most important markets in Europe and the United States.

The devaluation will therefore have only minimal effects on Beijing's trade balance. Furthermore, even the import controls introduced by Beijing, since the spring of 1985 have hardly had the desired effect, as imports in fact stood at \$42.26 billion in 1985, after having been \$26.75 billion in 1984 and \$21.32 billion in 1983. The trade balance deficit, at over a billion dollars in 1984, amounted to \$7.61 billion in 1985, according to information supplied by the Economics Ministry, and to as much as \$14 billion according to customs statistics.

China is now trying to get control of the problem, not only through administrative controls on imports, but also through monetary and pricing policies. The deficit has, after all, forced Beijing to take up credit increasing on the Frankfurt and Tokyo financial markets and to draw on its reserves. China is therefore listening to the preachers in the IMF and the World Bank, who are recommending a flexible monetary policy as the remedy.

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## FOREIGN TRADE AND INVESTMENT

### DIFFICULTIES IN FOREIGN EXCHANGE ACQUISITION

Duesseldorf HANDELSBLATT in German 10 Jul 86 p 10

[Article by Christoph Rabe: "Monetary Policy Alone Cannot Bring About Structural Change"]

[Text] China's strict anti-inflationary monetary policy, which is intended to bring about both a decrease in the loss of foreign currency as well as an increase in exports, will help to shrink the double-digit growth rates of the previous year to a "normal" ratio. Initial mid year indicators tend to show that Beijing is on course. Industrial production in the PRC during the first six months climbed only by 4.9 percent to 428.44 billion yuan renminbi (about RM285 billion). However, the picture is not totally rosy in Beijing. At the present time, the glaring foreign currency problems are being dealt with with half-hearted measures.

The industrial growth rate corresponds to the new margins for 1986 which were redefined by the government during the last quarter of the previous year. The rapid development in the first half of the previous year, when industry registered growth rates of much higher than 20 percent, had led to a massive outflow of foreign currency, since capital investments and imports of raw materials were carried out much too impulsively and in an uncoordinated manner.

China's balance of trade deficit fell last year to a record low, which the Ministry for Trade and customs authorities put at \$7.6 billion and \$14 billion respectively, with the difference due to varying accounting methods. However, the monetary restrictions and the new import controls are making life more difficult for foreign investors and importers of equipment that is urgently required for structural rehabilitation. This situation will not change much in the foreseeable future. Beijing will have to strictly observe the stipulation that all projects involving foreign participation must independently meet their foreign currency requirements by means of exports.

The ambitious development program imposed by the 7th Five Year Plan is based on substantial imports of capital goods, the cost of which is estimated at about \$45 billion. If remaining foreign currency reserves, which are estimated at only about \$10.3 billion, are depleted, this would inevitably lead to a revision of the entire mid-range development program. Last year,



China's foreign currency cushion had already shrunk by 17 percent to \$11.95 billion.

### Impediment to Technology Transfer

The adjustment of the renminbi exchange rate last weekend--the domestic exchange rate was devalued by an average of more than 13 percent as compared with leading Western currencies--will not necessarily help to bring about a more rapid technology transfer. China's monetary guardians, however, are at the moment primarily interested in stretching the country's shrunken dollar reserves and eliminating obstacles to its export economy.

The Chinese export economy realizes its profits primarily from oil, textiles, mechanical engineering and most recently also from electronics. Whether or not the export economy can be cured in a lasting way with a monetary shot-in-the-arm is a question which for the time being must remain open. To be sure, the IMF will applaud a more flexible monetary policy. In the view of many observers, it is not so much the Chinese prices which act to curb the rather tenacious flow of exports.

The headaches are rather caused by inadequate product quality, the technological level, and the economic structure which increasingly lacks cohesion. It is not by chance that Chinese managers are continually admonished to improve quality standards for their products, including those intended for the domestic market. However, this also requires modern production facilities. And these are becoming more expensive. Nonetheless, the first priority of China's economic policy must continue to be economic change in industry and technology.

To a certain extent, the planners in Beijing are confronted with a dilemma. They know that industry cannot be modernized and the hoped-for structural revitalization of the export economy must remain wishful thinking without costly imports which tend to eat up foreign currency. The fact that oil exploration has not yet been entirely successful and that world market prices have fallen for oil products and other profitable trading commodities does not point to a stockpiling of foreign currency surpluses in the foreseeable future.

Adjusting the overvalued national currency can at best succeed as an interim measure. This devaluation will have no noticeable impact on the balance of trade, however. There is not yet any discussion of raising foreign indebtedness to more than 5 percent of the GNP in order to increase foreign currency holdings. Nor can a decision concerning the free convertibility of the renminbi be expected at this time.

### Liberalization of the Price System is a Task for the Future

The first prerequisite for this would be a continued market-oriented adjustment of the price system and the elimination of the circulating second

currency, the foreign exchange certificates. Here is where a decision must be made by means of which the future of the Chinese reform policy will be determined.

The fact that a recent decree that all credit decisions must be approved by the central government was shortly thereafter revoked indicates the extent to which Chinese planners are harassed by a shortage of capital. In order to better distribute the credit quota, the provinces were once again empowered to apply independently to foreign lenders.

In any case, Beijing must practice stricter control in import policy than is good for the reform policy. In 1986, imports are expected to drop by 15-20 percent as compared with the previous year. The internal Chinese debate concerning the way in which limited financial resources are to be distributed can also lead to a diminishment in foreign involvement in the special economic zones, since it is expected that Beijing will also have to offer more advantageous investment conditions in other areas of the country as well, in order to stimulate the inflow of capital.

This trend is already being felt in the special economic zones. As the WALL STREET JOURNAL has reported, Shenzhen, Zhuhai and Shantou have been inundated with a flood of cancellations in which projects costing as much as \$650 million have been eliminated or postponed. In Shenzhen, the closest special zone to Hong Kong, the industrial growth rate shrunk during the first half of 1986 to a mere 1.9 percent.

The fact that foreign investors must exercise caution in view of the present bureaucratic framework conditions and the reservations with which the modernization course is presently being analyzed from the foreign perspective must give rise to serious reflection on the part of China's economic policy makers. After all, the planners in Beijing had based great hopes precisely on these investors--at least insofar as the foreign currency-saving initial financing of joint projects is concerned, which makes possible the sorely needed transfer of technology.

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## SPECIAL ECONOMIC ZONES

### YUAN GENG DISCUSSES CONDITIONS IN SHEKOU

Guangzhou KAIFANG [OPEN POLICY] in Chinese 8 Feb 1986 No 2 pp 9-11

[Article by Yuan Geng [5913 1649] Based on Comrade Yuan Geng's speech at the National Work Conference on Special Zones at the end of last year.]

[Excerpt] Be Extra Careful in Capital Utilization, Stress Benefits and Do Not Rashly Expand the Scope of Capital Construction

These past few years we in Shekou have borne a heavy debt. For instance, we owe a large amount of money and the Central Committee has given us the right to \$5 million which can be drawn upon once. However, at the same time we now have a heavy responsibility to bear. The State Planning Commission does not freely allocate funds for development and construction in Shekou. Our only source of revenue from the state is the profit from offices under the China Merchants Steam Navigation Ltd. which need not be handed over for 5 years. Eventually, however, they too must be returned. Besides recovered funds, the other major portion of investments comes from banks, chiefly loaned from Hong Kong banks. If these funds are used unwisely in Shekou, the China Merchants Steam Navigation Co. Ltd. and myself will be put on the spot and we will all be held legally responsible.

The kinds of sources of capital may determine enterprise activities. Since our development capital is not freely allocated by the state and both capital and interest are high, it is necessary to return the loan according to schedule. This makes us doubly anxious when spending the money. We do not dare to rashly expand the scope of capital construction and we must pay strict attention to economic results. At the same time, this forces us to implement a series of reforms, to adopt some policies, and to open up new paths for production and economic development.

Some comrades envy our right to draw on the \$5 million once, however, to be honest, when we use this right we do not have "the air of a man of fortitude and courage" who "throws away money like dirt without batting an eyelid." On the contrary, we do so cautiously and with great care. Studies on the feasibility, economic results, and solvency of some larger projects often make us so anxious it is hard for us to sleep through the night. At times we even wake up with a start in the middle of the night, covered in cold sweat. This is no exaggeration, it is fact.

Our industrial district is a small one. Prior to opening up, Comrades Xie Nian [0341 1819] and Gu Mu [6253 3668] were very generous. They wanted to include all of Nantou Peninsula but we only asked for 1 square km from Guangdong. After 6 years we have now opened up and developed 4.5 square km. Some newly arrived comrades have complained to us: Why didn't we ask for several tens of square km and draw up a great and magnificent plan? To be honest, this is not a question of what we would or would not like but rather a question of what we do or do not dare to ask for.

As we all know, total investments for developing 1 square km of uncultivated desert are close to 100 million yuan. Statistics on Hong Kong recently released by the Hong Kong Territory Commission of the Chinese-British Liaison Group show that it costs, HK \$1.4 billion to develop a square km. Relatively speaking, it is still very cheap for us to construct piers and ports. Even if we calculate an investment of 1 million yuan per square km, if we begin by developing several tens of km, who is going to repay this debt of several billion yuan? After several years, the amount of capital recovered by the state in Shekou Industrial District already amounts to more than two-thirds of the total investment and the result is a new type of industrial port city. If we were to expand the scope of development today, we certainly would not get such fine economic results. We must develop and operate the industrial district using various kinds of enterprises to invest, build, recover investments, and reinvest. In general, we can only have a long-range course of action and overall plans. On the surface, our aspirations may not seem very grand but we are quite practical. We wish to avoid the risks of overinvesting, too long a cycle, and too large a scope.

Reforms Are Compulsory, for Without Them Productivity Will Be Low and We Cannot Be Competitive and Grow

Over the past few years we have implemented reforms in project construction, in the management system, in the cadre system, in the labor personnel system and in housing. This has included the elimination of the wage system and the administrative grade system originating in the interior. We did not carry out these reforms because comrades in our industrial district are particularly brilliant, far-sighted, or bold and resolute. To put it bluntly, we were forced to implement these reforms by the form of our sources of capital and our economic status. If we do not implement reforms we will not have high productivity nor will we be able to pay off our debts; if we cannot pay off debts, the industrial district will face competition from the international market and we will find it difficult to survive. At that time, who would take in the several tens of thousands of people who depend on capital to enjoy peace and stability? Isn't this being irresponsible?

For instance, from the start the money we used for construction was borrowed from Hong Kong banks and with every passing minute it is necessary to compute interest. How could we adopt that method used in the interior where the administrative system appoints a construction crew which loafes on the job when there is a designated construction period? This has led to the reform of inviting bidding in construction work.

Another example is our management system. It has not adopted the method of corresponding higher and lower authorities in larger numbers of bureaus and division-level units. The city has given us a personnel table of organization. We can add personnel whenever we wish; however, when we balance our accounts, for every person added, the industrial district must put in more than 20,000 yuan of capital. According to the standard in Hong Kong, interest on this sum is over 200 yuan per month. In addition, there are the wages and the welfare fund for this individual. One person costs over 500 yuan per month. This is much more expensive than the cost of hiring a worker in the interior. Staff and workers in the interior are supported by the state whereas the entire welfare of staff and workers in Shekou is the responsibility of one enterprise. This forces us to strictly control the scope of the management system and population growth in the industrial district.

A further example is our housing. Housing is also built with credit. A house consists of 80 square meters. Not counting the building and development fee for the small district, 20,000 yuan are required. The monthly interest on this sum is over 200 yuan. If we also implement the low-rent policy of the interior there would not even be enough to pay house-maintenance costs not to mention repaying capital with interest. For this reason, the current rent for housing has been increased to between .80 and 1.20 yuan per square meter. Later on it will be necessary to gradually increase rent along with increases in labor productivity and wages. Eventually, rent will be sufficient to repay capital with interest and housing will then truly be a commodity.

Give Preferential Consideration to the Long-Term and Overall Interests of the State During Business and Policymaking; Implement the Directive of the 'Five Import Taboos' and the 'Three Priorities'

One factor determining the direction of development and enterprise activities in Shekou Industrial District is the source of capital. Another important factor is the fact that our China Merchants Steam Navigation Co. Ltd. is a state-run enterprise stationed abroad. When it is transacting business and making policies, it must not only consider the interests of the enterprise and workers but it must also give preferential consideration to the long-term and overall interests of the state.

We all stress economic results, however, seeking economic results in a state-run enterprise is not the most important principle in that enterprise nor is it the only principle. There are those who say that I once said: "I am unsympathetic and cold and heartless to all relatives and friends." They have also said that I value money more than life in reference to my slogan 'Time is money and efficiency is life.' I would like to cautiously declare at this point that what I said was that economic laws are heartless add that violators should be punished. We have consistently believed that the microeconomic benefits of enterprises must be subordinate to the macroeconomic benefits of the state. We oppose eating out of the big pot, but that does not mean we oppose the system of public ownership itself. We hope that through reform we can destroy the big pot and thereby fully



develop the initiative of enterprises and individuals and obtain better economic and social benefits. At the same time, we hope we can defend and more thoroughly develop the superiority of the system of public ownership.

Proceeding from this fundamental principle, we have successively proposed the guidelines of the "five import taboos" and the "three priorities."

The five import taboos refer to the following: We do not import industries that engage in the processing of imported materials, that engage in compensation trade, that compete for national export quotas, that create unmanageable pollution, and that import obsolete technology. We must defend our long-range interests in this district as well as the overall interests of the state. We must not change Shekou into a receiving station for "Western industries" or "garbage industries" nor must we squeeze out our country from the already established foreign market.

Why is it necessary to give priority to industry? Actually, this is a question that forms the basis of production industries. The most basic social practice in the history of mankind is production. Without production, there is no distribution, exchange, or consumption. This means we would not have commerce, service industries, tourism or what we are currently focusing on--an information industry society. The basis of tertiary industries are primary and secondary industries. We hope to import good production equipment and consumer products from abroad but if we do not engage in production ourselves nor have our own exports and merely rely on revenue from tourism and real estate, then it will be very difficult to make payments of foreign exchange for purchases. Consequently, only by persistently emphasizing industry can we gradually lay a lasting foundation in society. On this point our interests and the interests of the state are completely in accord.

Why should we give priority to foreign capital enterprises (joint venture enterprises and sole proprietorship enterprises)? This question is related to why we have special zones. The common goal throughout the world for having special zones in developing countries is to bring in foreign capital, technology, and management experience so as to counteract domestic weaknesses. The implementation of preferential policies is also directed at foreign capital enterprises. We do not oppose special zones having more joint investment exporting enterprises that cooperate with the interior during the current early stages. However, if things continue like this and cooperating enterprises, domestic capital enterprises, or foreign capital enterprises do not emerge or very few are put into operation, then there will be no great differences between export bases in special zones or in other areas.

Among all products, why should priority be given to exports? This question has to do with tapping the international market and trying to obtain foreign exchange. In the long-term China must gradually enter the world market. In this respect special zones are the vanguard in exploring the way. If priority is not given to selling special zone products abroad but rather to importing foreign spare parts which are resold on the domestic

market after being assembled, then there is not much difference between these products and assembled imports. This still requires foreign exchange from the consumer country. The difficult problem of an imbalance of foreign exchange may then occur in the special zones. Of course, as we clearly know, competition in the present world market is extremely fierce. Our special zones have just gotten underway so it is not easy for special zone products to break into the world market. Thus, it is still necessary to give a helping hand to enterprises that can replace imports, that have advanced technology and that have run into difficulties in the early stages of handling exports yet have long-term potential. We must give them access to some domestic markets. This does not contradict giving priority to special zone exports and it does correspond to the overall and long-range interests of the state.

How should special zones be run in the future? First, they must rely on the policies of the Central Committee and the support of all departments in the central government. Second, we must make every effort. Central Committee policies concerning special zones are clear and resolute. The various departments in the central government have already adopted and are in the process of adopting measures to implement the policies of the Central Committee and support special zone construction. As for the special zones, first we must muster all our heroic courage, cut back on capital construction, particularly nonproductive capital construction, slow down the pace of growth, strive to develop industrial production and improve the exchange-earning capacity of exports. Second, we must dare to tear down temples and remove Buddha idols, reform laws that do not conform to the economy, hand over rights and responsibilities for procedures and organizational structures that produce no economic benefits to enterprises so as to increase enterprise vitality. At the same time, we must truly improve legal supervision of cadres, supervision of finances and taxation, and supervision of party and political discipline. Third, we must prudently deal with the issue of wages and welfare. It is necessary to avoid an excessively rapid increase in wages and crippling the competitive ability of special zones in the world market. Fourth, we must praise the good and avoid pitfalls, fully develop our superiority and integrate imported capital, technology, and management knowledge with our rich human and natural resources. We must earnestly work on building up medium and small industries which have an exchange earning capacity and not seek production industries which are too large in scope or have too high a level of technology. Fifth, the future of the special zones is determined by men of ability. According to the four modernizations for cadres, we should first focus on the requirement to make the ranks of cadres more revolutionary. We must strive to train a group of cadres who can struggle hard on behalf of the special zones, be honest in performing their official duties, and be capable of managing an export-oriented economy. Recently some comrades among us proposed that the government emphasize democracy, the economy emphasize results and cadres emphasize honesty. This is a fine slogan. At the same time, we must resolutely control population growth so as to lighten the heavy burden to society.

I feel that despite the difficulties confronting the special zones, under the unified command of the CPC Central Committee and the State Council, the special zones and all the people throughout the nation can rally together and overcome difficulties, greet the future and welcome the challenge! No difficulty can stand in the way of our progress.

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## POPULATION

### NEED FOR MINORITY NATIONALITIES TO IMPLEMENT FAMILY PLANNING

Urumqi XINJIANG RIBAO in Chinese 7 Mar 86 p 4

[Article by Liu Yongqian [049 3057 6197]: "Minority Nationalities Also Should Practice Family Planning"]

[Text] The practice of family planning is a basic national policy included in the Chinese constitution. Article 25 of the constitution states that "the state implements family planning to adapt population growth to economic and social development plans" and Article 49 states that "both husband and wife have a duty to practice family planning." These stipulations apply both to the Han nationality and to minority nationalities as well. Regarding this question, the CPC Central Committee and State Council pointed out clearly in their "Instructions on Doing Better Family Planning Work" on 9 Feb 1982 that "minority nationalities also should be encouraged to practice family planning, but the requirements may be somewhat less stringent." According to the principles specified in the constitution, the instructions of central authorities and integration with real conditions in Xinjiang, the "Third Plenum of the Standing Committee of the Sixth Xinjiang Autonomous Region's People's Congress passed a decision stipulating that "minority nationalities also should practice family planning, but we must strengthen propaganda and education and take action to create the conditions for gradual implementation."

The purpose of family planning is to control population growth in a planned manner to coordinate population growth with development of the national economy. This is a major question that concerns the prosperity of the Chinese nationality and also is in the basic interests of the people of all nationalities in China. Family planning not only can substantially raise the survival rate of infants and greatly improve the health standards of children and mothers but it also can greatly reduce the living burden on families and improve the material culture and lives of the people, which in turn will be of major benefit for the entire nationality, autonomous region, and nation. For this reason, those who truly love their own nationality will acknowledge the necessity of family planning and implement family planning policies.

China's population has grown very quickly since liberation, and the population of minority nationalities has grown even quicker. The total population of minority nationalities in China in 1964 was more than 39.92 million persons and had grown to more than 67.23 million by 1982, up 68.4 percent over 18 years.

The Han nationality grew 43.8 percent over the same period, so the growth rate of the minority nationality population was 24.6 percent higher than for the Han nationality population.

Minority nationalities have developed and improved in all areas since the birth of New China, but improvements in cultural and educational levels and the people's lives have been limited. In searching for the reasons, besides the developmental imbalances between all nationalities that were historical vestiges, it must also be said that rapid growth of nationality populations, many children, and heavy living burdens are another important reason. For this reason, despite the fact that the party and state have made great efforts to assist and support minority nationalities through such means as the three subsidy items allocated each year (special funds for minority nationality regions) and so on, per capita incomes remain low. This shows that the population law of socialism (planned control of population growth) places restrictions on all nationalities.

At the Kashi Cotton Textile Mill, for example, there were no differences between the focus of production, working conditions, living environment, and wage incomes of workers of the Han nationality in the plant who entered the factory during the same period of time in comparison with young minority nationality men and women who entered the plant at the same age. Some consideration was always given to minority nationality workers at the same technical levels when readjusting wages, so there were no major differentials in gross economic incomes. Nevertheless, differences in the number of children created obvious differences in per capita incomes for the different nationalities, and there also were differences in living standards, school attendance, family purchasing power, and housing conditions. The mill has 2,570 workers of the Han nationality and 1,740 from minority nationalities. Our survey research indicates that a larger proportion of minority nationalities have per capita incomes of less than 300 yuan and that the Han nationality accounts for ever-larger proportions of those with per capita incomes in excess of 300 yuan. This is especially true of those with per capita incomes greater than 600 yuan, where the Han nationality accounts for a very large proportion and minority nationalities for a very small one. What is the reason behind this phenomenon? We did a sample population survey of minority nationality households. The results were that each Han nationality family averaged 4.2 persons while each minority nationality family had an average of 6 persons, or 1.8 persons more than Han nationality families. According to estimates made over several previous years, raising a child to the age of 16 requires an average of 1,600 yuan in rural areas, 4,800 yuan in towns and 6,900 yuan in cities. Kashi is considered a town, so raising 1.8 more children requires an additional 8,640 yuan or an additional cost in excess of 540 yuan per year. This naturally causes the per capita incomes of minority nationality workers to be less than those of Han nationality workers.

If we look at the relationship between population and education, a family with a limited income means that having more children inevitably leads to a reduction in per capita incomes, heavier burdens on the family, increased household labor, and lower school enrollments and promotions, especially in opportunities



and conditions for entering college. In the opposite case, there would be increased opportunities and conditions for enrollment and promotion in school. Statistics from a survey of school enrollment and promotion for male and female employees of the Kashi Cotton Textile Mill indicate that 41.1 percent of the children of minority nationality workers attended elementary school, 33.1 percent attended lower middle school, 6.9 percent attended upper middle and polytechnical schools, and 0.5 percent attended colleges and universities. For Han nationality employees, 33.3 percent of their children attended elementary school, 36.3 percent attended lower middle school, 15.7 percent attended upper middle and polytechnical schools, and 1.6 percent attended colleges and universities. This comparison shows that the percentage of minority nationality students is larger than that of Han nationality students in elementary school, but the number that enter lower middle school is less than the Han nationality, while the number that go on to upper middle schools and colleges is only about one-half that of the Han nationality.

We also can discuss the relationship between population and consumption levels. The basic goal of socialist production is to satisfy to the greatest possible extent the ever-increasing material and cultural needs of society and the masses. The superiority of the socialist system is manifested in improvement of the material and cultural living standards of the masses. Of course, if we wish to raise the material and cultural living standards of the people, the most basic thing is to rely on the development of production. Still, living standards are strongly related to population. If a population grows too quickly, it will affect improvements in the consumption levels of the people. We can use the Kashi Cotton Textile Mill as an example again. It has minority and Han nationality nurseries. During the 18-year period between 1965 and 1983, the total number of children entering the nursery was 5,387 for the Han nationality and 178 for minority nationalities. This means that during this period each 100 Han nationality families had 500 people entering the nursery while each 100 minority nationality families had only 35 children who entered the nursery. The number of Han nationality children was 16-fold greater than minority nationality children. There was a mess for children aged 4 to 6 preschool nursery classes. Only 12 children of the Han nationality did not eat there regularly, while 59 minority nationality children did not eat there regularly, so only one-fifth as many minority nationality children participated as did Han nationality children. There are two minority nationality and Han nationality cafeterias in the mill's production region and residential areas. The number of minority nationality people who ate in the cafeterias each month totalled 450, equal to 17.33 percent of the total minority nationality population of the factory region as a whole. The number of Han nationality people eating in the cafeteria was 2,680, equal to 64.66 percent of the total Han nationality population of the factory, so the figure for the Han nationality is nearly four-fold as great as that for minority nationalities. On the average, Han nationality employees at the factory have one newspaper subscription for every 3.6 people and one magazine subscription for every 0.77 people. The figures for minority nationality employees are one newspaper subscription for every 20.8 people and one magazine subscription for every 18.4 people. These differences show that minority nationality families originally should have placed their children in nurseries so that they could receive an

enlightened education in collectivism and culture. Because they have more children and poor economic conditions, however, they are restricted. Similarly, children who formerly ate at the school mess do not eat there so that they can save a little money. The number of minority nationality employees eating in the cafeterias is much smaller because of the need to reduce expenses. There also are very large differences in the number who spend their own money to subscribe to newspapers and magazines, which is a clear reflection of the relationship between population and living standards.

According to a survey of Urumqi, 54 percent of minority nationality women of childbearing age took the initiative to adopt family planning measures in 1985. There were also many who voluntarily adopted family planning measures in prefectures throughout the rest of Xinjiang. The burden of household labor and many children among some women in agro-pastoral regions has caused them to urgently desire fewer children. The facts show that minority nationality people, especially employees, are gradually coming to realize the benefits and importance of family planning. We carried out an anonymous questionnaire survey of the ideology, work, ideals, and so on of 309 members of the CYL of the Uigur nationality in several factories in Kashi and Yili. In response to the question: "Do you feel that it is best to have several children," four, or 1.29 percent, felt that 1 child was best, 100, or 32.36 percent, felt that 2 children was best, 112, or 36.28 percent, felt that 3 children was best and 89, or 28.8 percent, felt that more children meant more wealth. Four people, or 1.29 percent, did not want children. This shows that Uigur youth are coming to realize the current situation internationally and in China and are gradually establishing a concept of family planning.

To eliminate the historical vestiges of developmental imbalances among minority nationalities and bring about rapid prosperity and development among minority nationalities, the CPC has proposed the use of family planning to control the population to allow the planned and proportional development of the production of material goods and the production of population itself during China's socialist modernization drive. The prosperity or decline of a nationality is not determined entirely by the size of its population but is manifested even more importantly in the quality of the nationality and in its spiritual civilization and degree of economic, cultural, scientific, and technical development. The Han nationality is the largest in the world but it was poor and backward under the corrupt system of old China and was insulted as the "sick old man of east Asia." It was a large nationality of poor quality that suffered from humiliating invasions from outside and the suffering of poverty and hunger from within, so what good is a large population alone? It can only mean that the heavy millstone of population must be borne throughout a life of poverty and misery. In contrast, there are some nationalities, such as the English, German, American, French, and other nationalities, with rather small populations of high quality whose high degree of economic, cultural, and scientific development have made them the developed nationalities of the world. Some people worry that calling on minority nationalities to practice family planning would limit growth of minority nationalities. There is no basis for this fear. If the minority nationality population of Xinjiang were to produce an average of 2.5 children per couple in cities and 3.5 children per couple in rural areas, the minority nationality population of Xinjiang would surpass 11.4 million in the year 2000 (it was over 8 million in 1984). For this reason, there is no basis for the fear that there will be a reduction in minority nationality populations after they begin practicing family planning.

## POPULATION

### STRUCTURAL CHANGES IN URBAN FAMILY ECONOMY

Beijing OUTLOOK WEEKLY [Overseas Edition] in Chinese Vol 15, 14 Apr 86 pp 10, 11

[Article by Gu Baiqi [7357 0130 0366]: "Economic and Structural Changes Among China's Urban Families"]

[Text] Some 200 million of China's 1 billion people live in cities. What is their living situation:

Beginning in 1985, the State Statistical Bureau began using random samples from across China to survey 106 large, medium, and small cities. These included 20 huge cities with a nonagricultural population of more than 1 million, such as Beijing, Tianjin, Shanghai, Xi'an, Lanzhou, Changchun, and others; 22 large cities with populations between 500,000 and 1 million, such as Shijiazhuang, Hegang, Wuxi, and Urumqi; 35 medium-sized cities with populations between 200,000 and 500,000, such as Qinhuangdao, Anqing, Zunyi, Yinchuan, and so on; and 29 cities with populations of less than 200,000 such as Yuncheng, Haikou, Golmud, and so on. The survey covered nearly 17,000 families.

The survey indicates that rather substantial changes have occurred in the living situations of families residing in Chinese cities.

Families are Decreasing in Size, Small Families Are Replacing Large Multi-generational Families Living Together

Control of population growth and implementation of family planning has led to basic control of the rate of growth in China's urban population and family size now is shrinking. Here are some records from data over the years:

Table 1. Average Number of People Per Family

	Year				
	<u>1958</u>	<u>1964</u>	<u>1978</u>	<u>1981</u>	<u>1985</u>
Number of People	4.45	5.30	4.44	4.24	3.81

If we look horizontally at the size of the population of urban families in large, medium, and small cities, data from the 1985 national survey indicate

that the population in each family averaged 3.68 in major cities, 3.85 in large and medium cities, and 4.03 in small cities. The development of the economy, science, and culture have brought about changes in the people's living patterns which in turn have engendered changes in family structure. Small two-generation families are in the process of replacing multigenerational coresident families of direct relatives, and large families including many generations are breaking up. Survey data over the past several years indicate that the proportion of all families made up by families composed of 2 to 3 people rose from 31.49 percent in 1983 to 35.95 percent in 1984. This seems to be a developmental trend.

#### Greater Monetary Incomes Strengthen Spending Capacity

In the realm of social distribution, people often use monetary income as a measure of the degree of wealth in a small family. In recent years, China has implemented a policy of "economic invigoration inside China, opening up to the outside world," which has brought about the coexistence of many economic components while the individual economy has developed and opened up routes to employment. In 1964 each working person had to support 3.4 people (including himself) while today each working person must support only 1.7 people. This has led to a corresponding increase in per capita monetary incomes for members of urban families. The per capita income used for household expenses in urban families increased from 227 yuan in 1964 to 752 yuan in 1985 a 2.3-fold increase. The figure in 1985 was 71.3 percent higher than in 1980. If we exclude inflation, the real annual incomes of urban residents reached 731 yuan in 1985, up by 511 yuan over the 1964 figure of 220 yuan, a 2.3-fold increase. The increase was 319 yuan, or 77.4 percent, over 1980, and was 171 yuan, or 30.6 percent, higher than in 1984. If we deduct the effects of inflation on prices, the real increase would be 16.9 percent. These figures show that the rate of growth in consumption as measured by total consumption among people in China's cities is unprecedented in the history of our nation.

#### The Amount of Nondurable Consumer Goods Is Rising

Rising incomes among urban residents over the past few years have increased the amount of top-shelf nondurable consumer goods purchased. Commercialization of residences has not spread to most cities, so families continue to favor purchases of "major items" (televisions, refrigerators, radios and cassette players, washers, motorbikes, and so on). Besides some bank savings, most families residing in urban areas are actively raising capital in preparation for buying top-shelf clothing and household articles as well as middle- and top-shelf household appliances. According to a survey made in 1985, each 100 families in China's cities had the following property:

32 Fur overcoats	75 Electric fans
96 Blankets	53 Washers
106 Dressers	18 Color televisions
137 Armchairs	73 Black-and-white televisions
4 Suites of furniture	21 Stereo recorders
7 Sofa beds	10 Cameras



Many urban families have begun buying pianos, guitars, and other middle- and top-shelf instruments to train their children's versatility, and video recorders also are beginning to enter urban homes. It is obvious that people in China's cities today have entered a higher realm of consumption.

#### Changes Are Occurring in Consumption Structures

Before 1978, most of the economic income of common urban families was used to buy food, with about one-fifth of per capita yearly expenses going for consumption of staple foods (grains). Data from the 1985 survey of families in 106 cities shows that expenditures per resident on food for the year reached 390 yuan, by 66 yuan, or 30.9 percent, over 1984. Of this amount, expenditures on nonstaple foods, tobacco, liquor, and tea increased 25 percent between 1984 and 1985. The proportion of total income used for living expenses dropped from 11.3 percent in 1984 to 8.7 percent in 1985. In 1985, if we subtract price factors, the ratio between staple and nonstaple foods was 1 to 3.4. More and more people are becoming concerned with the nutritional value of foods and are demanding sensible and tasty foods.

There was an increase in 1985 in per capita consumption of pork, fresh eggs, and poultry compared with previous years. Consumption of all types of liquor is also rising. Per capita consumption of fresh eggs rose from 5.2 kg in 1984 to 6.4 kg in 1985. Food consumption as a proportion of total living expenditures among China's urban residents had been fluctuating around 58 percent but dropped to 53 percent in 1985.

Roughly one-half of people's living expenditures over the past several years has been used in other realms of consumption. In 1985, consumption of household articles and of cultural and leisure goods rose from 9.1 and 4.4 percent of total living expenditures, respectively, in 1984 to 11.1 and 7.6 percent, respectively, in 1985. There was a 61-percent increase in consumption of household articles by urban residents compared with 1984, with each 100 households adding 13.5 electric fans, 12.3 washers, 5.2 refrigerators, 8.5 televisions, 9.9 recorders, and other household items.

#### Clothing Is Moving in the Direction of High Quality, Variety and Finished Products

Besides food and goods of daily use, urban residents also have higher demands for clothing. Data from the 1985 survey of urban residents show that yearly monetary expenses for clothing among urban residents averaged 112 yuan, up 29 percent over 1984.

The pace of change in clothing is also faster. The color and texture of clothing are becoming major concerns. More and more people are paying attention to clothing styles. The most popular types of clothing at present include jackets, jogging outfits, suits, windbreakers, down garments, and so on. Surveys indicate that the largest clothing stores in major cities handled over 1,000 types of clothing of various designs in the past and that this figure now has grown to more than 2,000 types. The diversification of clothing colors, textures, and styles also had led to diversification in textiles. Surveys show that



more than 100 types of textiles of different qualities and weaves are being sold on today's markets, an increase of severalfold over the past.

Today's urban residents, especially youth, have demonstrated special interest in makeup and festive articles. Increasing numbers of young women are wearing lipstick, gold, silver, or pearl necklaces, earrings, charms, rings, and so on. When a young man and woman get engaged, it is quite common for them to buy a 400 or 500 yuan gold ring to commemorate the occasion. According to the survey of 106 of China's cities, total consumption of makeup and gold and silver jewelry underwent 44.4 percent and fivefold increases, respectively, between 1984 and 1985.

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TRADE DEVELOPMENT BETWEEN USSR, WEST SINCE 1970'S

Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 4, 10 Apr 86 pp 79-83

[Article by Su Sijin [5685 0138 6930] of Foreign Trade Department, Xiamen University: "Special Features and Trend of Trade Development Between the Soviet Union and the West Since the 1970's"]

[Text] I. Special Features of Trade Development Between the Soviet Union and the Western Nations Since the 1970's

Since the adoption of the policy of "relaxation" by the Eastern and Western nations in the 1970's, the Soviet Union, with a view to developing its economy, has been actively engaged in promoting its trade relations with the Western nations. With the advent of the 1980's, the emergence of certain new features in the development of trade relations between the Soviet Union and the Western nations has caught the attention of the world.

A. Trade between the Soviet Union and the western nations has been developed at a rapid rate and trade with the West has assumed increasing importance in the Soviet economy. The Soviet Union's foreign trade was developed at a remarkably accelerated pace during the 1970's. Whereas the total amount of its foreign trade came to 19.78 billion rubles in 1969, it rose to 80.3 billion in 1979, showing a threefold increase within a period of 10 years and a 15-percent rate of increase annually. It further increased to 127.5 billion rubles in 1983 and to 139.7 billion in 1984. Between 1969 and 1979, the amount of trade between the Soviet Union and the West increased from 4.33 billion rubles to 25.7 billion, showing an increase of almost 500 percent. During the 1970's, the average rate of increase came to 19.5 percent annually. In 1983, the amount of trade between the Soviet Union and the West jumped to 38.4 billion rubles, showing an increase of 49.4 percent over the figure for 1979. In 1984, it came to 40.9 billion rubles, exceeding the 40 billion mark for the first time and registering an increase of 6.5 percent over the figure for 1983. Between 1981 and 1984, the rate of increase came to 29 percent. Since the 1970's, except for certain isolated years (such as 1980 when there was a slight decline in the rate of trade development between the Soviet Union and the West as a result of the embargo imposed by such Western nations as the United States following the Soviet invasion of Afghanistan), Soviet trade with the West has been developed at a rate higher than that of the development of the entire foreign trade of the Soviet Union and its trade with Council of Mutual Economic Assistance (CEMA) member nations. The major reasons contributing to the rapid development of Soviet trade with the West are as follows:

First, the Soviet Union readjusted its economic and trade policies in time to develop trade relations with the West and to take full advantage of the favorable situation in the international market. Following World War II, the Soviet Union, operating on the theory of the existence of "two parallel international markets" and repudiating the mutual economic dependency between the capitalist and socialist camps, virtually put an end to the import of capital and technologies from the West, much to the detriment of its foreign trade and economic development. Toward the end of the 1960's, and particularly during the middle 1970's and early 1980's, when the Western world was beset at different times by a number of major economic crises, the Soviet Union took advantage of the situation to readjust its economic and trade policies, came to accept the need "to keep pace with the times," developed "the division of labor among nations on a large scale" and began to adopt "economic reforms" to implement its new strategy for economic development. This strategy called for the intensification of production in society, the increase of economic effectiveness, the improvement of the quality of its products and the expansion of trade with the Western nations to import from them technologies, equipment, and capital. In accordance with this strategy, the Soviet Union also made an important change in its theories on foreign trade when it came to recognize the mutual dependency of the socialist and capitalist markets constituting the two parts of the world market as an objective fact. This mutual dependency in trade relations between the Soviet Union and the West is best demonstrated by the need by the Soviet Union to import advanced technologies and equipment from the West to speed up the modernization of its economy and the need by the Western nations for the abundant raw materials, fuels, and the promising market of the Soviet Union to maintain their economic operations. Second, the Soviet Union also made important changes in its foreign policy during the 1970's. To coordinate its overall strategy toward the outside world and especially to attempt to win over Western Europe, the Soviet Union made an active effort to develop its trade with the West in general and with Western Europe in particular. Thus, a strategic basis was laid for the rapid development of trade between the Soviet Union and the West. Third, the abundance of natural resources in general and energy resources in particular in the Soviet Union offered a major material basis for the rapid development of trade with the West. Since the 1970's, energy has been a major export of the Soviet Union to the West. It is the export of energy that provides the Soviet Union large amounts of foreign exchange to import technologies and equipment from the West.

With the rapid development of trade between the Soviet Union and the West, the ratio of the amount of trade with the Western nations out of the Soviet Union's total trade has shown a rapid increase. Whereas the Western nations accounted for 19.3 percent of total Soviet foreign trade in 1965, the figure was increased to 21.3 percent in 1970 and 33.6 percent in 1980. Although there has been a slight drop in recent years, the percentage, 30.1 percent in 1983 and 29.2 percent in 1984, still hovers around 30 percent. Meanwhile, the ratio of the total amount of trade between the Soviet Union and the CEMA member nations has shown a notable decline. Whereas the figure came to 58 percent in 1965, it dropped to 55.6 percent in 1970 and 52.1 percent in 1984. The increase in the ratio of trade with the West out of the total bespeaks the increasing importance of the Western nations in the Soviet Union's foreign trade as well as the intensification of mutual dependency between the two sides.

B. Trade relations between the Soviet Union and the Western nations has been developed in neither a stable nor balanced manner. First, from the viewpoint of trade development, the process of bilateral trade development has been extremely unstable. Since the 1970's, trade between the Soviet Union and the Western nations has been developed in fits and starts. In recent years, due to the economic revival of the West and the economic development of the Soviet Union, trade between the two sides has again shown signs of considerable promise. One major reason contributing to this instability may be attributed to a series of political issues besetting the East and the West. The development of trade between the two sides has from the very start been colored by political considerations. That is especially true of the two superpowers, Soviet Union and the United States, both of which have come to regard the development of trade between the East and the West as a component for the contention of world hegemony. That is why the development of trade between the two is to a large extent influenced by the political situation in the East and the West. Second, from the trade balance point of view, the development of trade between the two has been extremely uneven. From 1970 to the first half of 1985, the Soviet Union has, with the exception of certain isolated years, suffered large deficits in its trade with the Western nations. Except for 1974 in the 1970's, when the Soviet Union registered a favorable balance of 116 million rubles, it has suffered deficits totaling 12.87 billion rubles in all the other 9 years. The amount of deficit in the 1970's was 10-fold that of the 1960's. During the 1980's, except for 1983 and 1984, when the Soviet Union registered a slight surplus by reducing its imports from the West and increasing its exports (the surplus for 1984 came to \$772 million), deficits were again suffered by the Soviet Union. The deficit for the first half of 1985, for instance, came to \$3.07 billion. The major factor contributing to the deficit suffered by the Soviet Union in its trade with the West may be attributed to the fact that since the 1970's, it has increased the amount of technologies, equipment, and grain imported from the West, while the amount of export commodities to the West has remained extremely limited. Furthermore, the reduction in the amount of petroleum and natural gas exports and the weakness of the American dollar have resulted in an excess of imports over exports. In order to reduce the amount of deficit in its trade with the West, the Soviet Union, aside from reducing the import commodities not urgently needed from the West, is seeking to increase its exports to the Western nations. The Soviet Union has also resorted to the selling of large quantities of gold and increasing its income from invisible trade in order to reduce its trade deficit and to ensure its foreign exchange earnings.

C. The Soviet Union is still in an unfavorable situation in its trade with the West insofar as the structure of its import and export commodities is concerned. As regards exports, the structure of the Soviet Union's export commodities is unitary, centering as it does around energy. At present, almost 90 percent of the Soviet commodities exported to the West is made up of four large categories, namely, energy products, other products made from raw materials, intermediate products, and chemical products. Energy products are composed almost entirely of petroleum and natural gas, raw materials are made up chiefly of lumber and cotton, intermediate industrial products consist mainly of cobalt and nonferrous metals; chemical products are mostly in the form of enriched uranium. Since

the 1970's, the ratio of petroleum and natural gas among the Soviet Union's exports to the West has shown a sharp increase. Whereas it was 33 percent in 1973, it increased to 80 percent in 1981. Taking 1983 as an example, the percentage of Soviet petroleum and natural gas exports out of the total amount of exports to the various Western nations were 74.6 percent for Austria, 62.1 percent for France, 72 percent for Holland, 81.3 percent for Italy, 70.5 percent for Switzerland. Between 1984 and the first half of 1985, the ratio of petroleum and natural gas exported to the Western nations among the Soviet Union's total exports remained at around 80 percent. Whereas in 1984 the average daily amount of petroleum exported by the Soviet Union to the West came to 1.6 million barrels, it rose to 1.7 million in the second quarter and as much as 1.8 million in the third quarter of 1985. The ratio of natural gas has continued to climb among the Soviet Union's energy exports. Whereas the export of natural gas from the Soviet Union to Western Europe came to only 1 billion cubic meters in 1970 it rose to 24 billion in 1980, 27 billion in 1981 and 40 billion from 1984 to the first half of 1985. Since the 1970's, the increase in the amount of exports from the Soviet Union to the West has been due mainly to the increase in energy exports.

The exports of energy is also the main source of the Soviet Union's foreign exchange income. Since 1980, the export of energy to the West has accounted for around 80 percent of its foreign exchange earnings. In 1984, the foreign exchange earnings of the Soviet Union amounted to \$30 billion, of which \$25 billion, or 83.3 percent of the total, was derived from the export of petroleum and natural gas. Petroleum alone accounted for some 60 percent of the Soviet Union's foreign exchange earnings. The vast amount of foreign exchange derived from the export of energy by the Soviet Union is a major reason for its increased import of technologies and equipment from the West. From the 1970's to the early 1980's, the sharp increase in the price of oil throughout the world proved to be boon to the Soviet Union. The increased income derived from higher oil prices during the 1970's alone was sufficient to enable the Soviet Union to increase its imports by 350 percent.

Although the structure of Soviet exports to the West based mainly on energy has made it possible for the Soviet Union to import capital, technologies and equipment from the West, the excessive reliance on energy in the structure of its exports has made it susceptible to the effect of fluctuations in the world market. Although the drop in the price of oil in the world market has exerted an adverse effect on Soviet exports in recent years, the Soviet Union has no choice but to export such energy resources as oil at reduced prices in order to earn the foreign exchange it needs to import technologies and equipment from the West. It is this form of trade based on "the exchange of energy for capital, technologies, and equipment" that accounts for the backward state of the Soviet Union in its economic development, especially in the technological area, in comparison with the West.

Technologies, equipment, and grain account for a major part of the imports of the Soviet Union. Commodities currently imported by the Soviet Union from the West consist mostly of four large categories, namely, chemical products, intermediate products, spare parts, and grain which account for 90 percent of



the total. Aside from the import of grain, the three categories imported from the West basically in the form of technologies and equipment accounted for 73 percent and 76 percent of its imports in 1979 and 1985, respectively. The technologies and equipment imported by the Soviet Union from the West are characterized by three major features. First, since the 1970's technologies and equipment have been imported from the West at an accelerated pace. Second, technologies and equipment have been imported mainly from member states of the EEC, Finland, and Japan. Third, the technologies and equipment imported are mainly of an industrial nature, the industries are mostly heavy industries and the heavy industries are mainly of the type involving equipment and advanced technologies that have something to do with the war industry. Food imports consist mostly of grain, which ranks only second to technologies and equipment among the Soviet Union's imports from the West. Since the 1970's, due to the poor harvests of grain in the Soviet Union over a period of years and the need to develop the livestock industry, the sharp increase in the import of grain by the Soviet Union has resulted in serious repercussions in the world grain market. The Soviet Union has become the largest grain-importing nation in the world. In 1982 alone, it imported 46 million tons of grain, or roughly half of the amount of various types of grain traded in the world market. In 1984, the amount was increased to 55 million tons. Although a drop is anticipated during 1985 and 1986, it is expected to remain in the 40-million-ton range.

The import of technologies, equipment, and grain from the West is a matter of great economic consequence to the Soviet Union. It has a vital effect on the technical progress of the Soviet Union, the development of its natural resources, the strengthening of its capability to export its industrial products, and the easing of its difficulties occasioned by the backward state of its agricultural production over a long period of time. It should be pointed out that too much emphasis has been placed by the Soviet Union on the import of whole sets of equipment among its technological imports to the neglect of "software" with the result that it is being confronted with difficulties in bridging the technological gap with the West at a more rapid pace. A lesson should be drawn from this.

D. There is a tendency by the Soviet Union to diversify its form of trade and thus to strengthen its productive and technical cooperation with the Western nations. It has diversified its trade with the West by engaging in compensation trade, barter trade, license trade, and the establishment of joint trading companies with emphasis on compensation trade. In recent years, the license trade has been developed at a rapid pace by both the Soviet Union and the West. They have also engaged extensively in two-way monopoly license trade or in the selling of monopoly licensing to third countries. In addition, the Soviet Union has established joint trading companies with certain Western European countries or submitted tenders jointly with those countries for setting up joint companies in third countries. That has become a major avenue for the development of trade between the Soviet Union and the Western European countries on a reciprocal basis. From the end of the 1970's to the end of 1984, Soviet foreign trade organizations have engaged in developing tripartite projects of cooperation with 200 companies in the Western nations in 46 developing countries. The Soviet Union has now established over 120 operations in partnership with the FRG.

A new trend has emerged from the form of trade described above. It marks a departure from the traditional exchange of commodities to cooperation in the area of production and comprehensive economic and technical cooperation on the basis of long-term trade agreements. Certain advantages accrue from this type of cooperation. First, it promoted the development of an economic relationship between circulation and production and technology in a closer and more integrated manner. It also promotes production for foreign trade and technical development while strengthening the relationship of mutual reliance on a mutually beneficial basis. For instance, the compensation trade agreements between the Soviet Union and the Western nations usually call for the fuel and raw materials industries to give thought to the construction of large-scale projects, thus serving to promote cooperation in such areas on the basis of mutual trade and to make it possible for the Soviet Union to obtain capital, technologies, equipment, and operational management experience from the West to promote its economic development. So far as the Western nations are concerned, this new trend enables them to find an outlet for their surplus capital, to obtain large orders for machinery and equipment to enlarge the market for their products, to obtain from the Soviet Union the raw materials and fuels that they need on a long-term and stable basis, and to find a partial solution to the unemployment problem. Second, this type of cooperation serves to strengthen certain areas of trade between the two sides. The Soviet Union has already concluded long-term economic, scientific, and technical cooperation trade agreements with the governments of a number of Western nations, according to which the Western nations are to make production equipment, technical know-how, and loans available to the Soviet Union. With a view to implementing these trade agreements, the Soviet Union has as a rule established joint government commissions with the concerned nations, so that organizations of a more permanent nature may be set up to ensure the development of mutual trade on a long-term and stable basis.

## II. Trend of Trade Development Between the Soviet Union and the West

A. Due to certain favorable factors, prospects are good for the development of trade between the Soviet Union and the Western nations, although the existence of certain restrictions is likely to hamper the development of such relations.

The major factor favoring the development of trade between the Soviet Union and the West is that the development of trade between them is of economic benefit to both sides. Since the 1970's, there has been increasing friction in the area of trade among the Western nations. Intermittent frictions in trade involving automobiles, agricultural products, steel, and advanced technologies among the United States, Japan, and Western Europe have intensified in recent years, a factor which has prompted those countries to explore the development of trade with Eastern Europe in general and the Soviet Union in particular. Meanwhile, the increase in trade among the CEMA member nations has shown a continuous downturn in recent years. According to an analysis, the deterioration in trade conditions between the Soviet Union and the Eastern European countries will compel the former to strengthen multilateral trade with the West to import advanced technologies and equipment.

The development of trade between the Soviet Union and the Western nations is also likely to be hampered by such unfavorable factors as political issues involving the East and the West and restrictions put on the transfer of technologies by the West (mainly the United States). Then, too, the Soviet Union is as yet incapable of producing finished products in demand in the Western market, or of increasing to a significant extent the production of such products as petroleum in exchange for hard currency. All these factors serve to put a lid on the scale of trade between the Soviet Union and the West.

B. In its trade with the Western nations, the Soviet Union has put its focus on Western Europe and Japan, while in Western Europe, it has placed its focus on the EEC. The FRG will remain the Soviet Union's major trade partner.

In recent years, trade between the Soviet Union and Western Europe has been increasing at a rapid rate. In 1984, the amount of bilateral trade came to 32,913,000,000 rubles, showing a 4.3-percent increase over 1983. In 1984, Western Europe accounted for 23.6 percent of the foreign trade of the Soviet Union, or 80.5 percent of the total amount of trade between the Soviet Union and the Western nations. The EEC occupies an especially important position in trade between the Soviet Union and the Western nations. In 1984, the FRG, Italy, France, Great Britain, Holland, and Belgium alone accounted for 53.8 percent of the total amount of trade between the Soviet Union and the West. Among the Western nations, the FRG is the biggest trade partner of the Soviet Union. Between 1970 and 1981, the amount of trade between the Soviet Union and the FRG increased 11-fold. Whereas the amount of two-way trade amounted to 7.02 billion rubles in 1983, in 1984 it reached 7.5 billion rubles, showing an increase of 6.8 percent. At present, the amount of trade between the Soviet Union and the FRG comes to roughly 18 percent of that between the Soviet Union and the Western nations.

Due to political factors and the trade embargo imposed by the United States, the amount of trade between the Soviet Union and the United States showed a sharp decline between 1979 and 1983. In 1983, it came to only 1.9 billion rubles. During the last 2 years, however, it has picked up dramatically. In 1984, the amount of bilateral trade rose to 3,113,000,000 rubles. From January to March 1985, it came to 1.08 billion rubles showing an increase of 62.8 percent over the same period in 1984. New progress is being made following the summit meeting between the United States and the Soviet Union. Generally speaking, there is considerable fluctuation in the development of trade between the two nations.

Henceforth, the Soviet Union is expected to develop its trade relations with Europe, mainly member nations of the EEC, to a further extent than that with the United States. The reasons are: 1) Both the Soviet Union, with its abundant natural resources, and Western Europe, with its capital and technology, have what can be used to supplement each other to establish a relationship of mutual reliance; 2) the Soviet Union and Western Europe are geographically close to each other; 3) to protect its own interests, Western Europe, more often than not, refuses to go along with the United States in its embargo against the Soviet Union, but instead seeks to take away business from the

United States. From the Soviet point of view, the shifting of the focus of its trade to Western Europe serves its ultimate purpose of intensifying the split among the NATO members and of nudging Western Europe to break away from the United States. In its trade with the West, the Soviet Union will continue to shift its focus from the United States to Western Europe. That is not to say, however, that trade between the Soviet Union and the United States will not continue to be developed to a certain extent.

Soviet-Japanese trade will become another focal point of the Soviet Union in its trade with the West. First, the development of trade with Japan is an important step by which the Soviets can exert their influence in the Asian region. Second, the Soviet Union regards Japan as an external power capable of helping it to open up the Soviet Far East and Siberia, areas which are extremely rich in natural resources. Concentrated in these regions are 50 percent of the Soviet Union's petroleum, over 60 percent of its natural gas, 90 percent of its coal and over 40 percent of its forestry resources. These assets cannot but prove a powerful incentive for Japan which is short of such resources. Since the Soviet Union does not have the means to open up these regions, especially in terms of capital and technical equipment, it earnestly hopes to engage in projects of cooperation with Japan. In view of the need on both sides and the proximity of the two countries, projects of cooperation for opening up these regions will assume major importance in Soviet-Japanese trade. The trend marking the shifting of the Soviet economic focus to the East reflects to a certain extent the future prospects of Soviet-Japanese trade. Furthermore, the Soviet Union also regards Japan as a major source of advanced technology.

C. Energy will remain the Soviet Union's chief export commodities to the West and of these, natural gas exports will increase. At the same time, imports of technology and equipment from the West will increase.

From hereon, exports of oil and natural gas will constitute the Soviet Union's primary export commodities to the West. At present, the Soviet Union exports some 1.6 million barrels of oil a day to the West. The amount is likely to remain more or less stable or to show a slight decline. In the future, the increase in the export of energy resources will mainly be due to the increase in the export of natural gas. The reasons are: 1) The Soviet Union, which has rich reserves of natural gas, is capable of increasing its production and export amount at a rapid rate. It has already overtaken Holland as the largest exporter of natural gas in the world. 2) The consumption of natural gas in the Western European countries will increase considerably. Since their rate of self-sufficiency is low, they will have to import large quantities from the Soviet Union. According to statistics, the ratio of the import of natural gas to satisfy the needs of the Western European nations will increase from the present 47 percent to 60 percent by the year 2,000. With the completion of the natural gas pipeline from Urengoy in the Soviet Union to Western Europe, the Soviet Union will be supplying 40 billion cubic meters of natural gas a year to the countries in Western Europe for 20 years beginning in 1984. It is estimated that 25 percent of the natural gas consumed by Western Europe in 1986 will be supplied by the Soviet Union (it was only 9 percent in 1981). The proportion of natural gas imported from the Soviet Union by the FRG, Italy, France, and Austria to meet their needs rose from 16, 7, 23, and 55 percent in 1980 to 30, 30, 30, and 70 percent, respectively, in 1986.



As regards the imports of the Soviet Union, there is a tendency for an increase in the import of Western technologies and equipment in general and technologies in particular. This tendency is closely related to the strategy of the Soviet Union to develop its economy. The Soviet Union has already made a start in implementing its 12th 5-Year Plan (1986-1990). Prior to 1990, the Soviet Union will have implemented some 170 large projects for scientific and technical development. By the year 2,000, the basic plan of the Soviet Union to develop its economy will be to continue to speed up the pace of its scientific and technical progress, to raise the level of its advanced technology, to make use of the technical reform of its existing enterprises to speed up its economic growth and to improve the technical standard of its armed forces. Although the Soviet Union has already achieved a leading position in the world in its research into the basic sciences and certain military technical areas, most of its findings have yet to be applied to economic development. It still lags behind such Western nations as the United States in such areas as satellite communication, advanced electronic computers, control systems, new materials, and semiconductors. Thus, the Soviet Union is extremely anxious to obtain technologies and equipment from the West in general and more advanced technologies in particular. Instead of importing whole sets of equipment from the West as it did in the past, the Soviet Union will shift its emphasis to the import of advanced technologies. In the future, Japan and EEC member nations such as the FRG will become major exporters of technologies to the Soviet Union.

Recently, the Soviet Union has engaged in a number of trade talks with Western Europe on the import of technologies. It has also "engaged in an increasing number of trade talks on the most advanced technologies" with Japan involving mostly robots, advanced technologies, electronic computers, semiconductors, new materials, and electronic technologies. The Soviet Union has placed a large number of orders with Great Britain, France, the FRG, and Japan for thousands to tens of thousands of sets of personal computers, indicating the speeding up of the pace by the Soviet Union to import technologies and equipment from the West.

(Editor of article: Pei Fulian [5952 4395 3944])

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ON THE STRATEGY OF INDUSTRIAL DEVELOPMENT IN HAINAN ISLAND

Guangzhou REDAI DILI [TROPICAL GEOGRAPHY] in Chinese No 1, Mar 86 pp 63-72

[English abstract of article by Yang Ying [2254 5391] and Zhou Jiahui [0719 1367 1979] of the Guangdong National College]

[Text] The focus of the world economy is shifting to ASPA (Asian and Pacific Area) at present. To exploit the resources and develop the economy of Hainan Island in time, especially to set up an industrial system with distinguishing features, we must both consider its internal and external position and draw the lessons of other nations in economic development.

The economic development and the establishment of an industrial direction in an area usually are affected by their natural, social-economic, and technical factors. With the comprehensive survey on Hainan, we suggest that its industry system should be based on the following four departments: the tropical agricultural processing industry, the mining and metallurgical industry and the building material industry, the oil-refining and petrochemical industry, and the electronic industry.

Considering the poor economic basis, the backward industry and the limited fund in Hainan at the moment, it is of course impossible to set up the four industrial departments at the same time if we really want to build a modern industrial system with distinguishing features which fit the conditions in Hainan. Therefore, these departments have to be arranged according to their present basis, the importance and the difficulty of items, the requirement and the possibility at different times.

The industrial distribution in the island can be divided into six parts: Haikou, Yangpu, Basuo, Sanya, Tongza, and Qinglan. Each must arrange its layout of the industrial production according to the conditions in the area and the principles of industrial distribution in order to elaborate its superiority better.

Besides setting up an industrial system with distinguishing features in the island, it is also of importance to deal appropriately with the technological introduction and internal connection, to enforce the construction of transportation and energy, and to encourage diversified economy as well as to pay great attention to intellectual investment.

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